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No. 05-

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IN THE
Supreme Court of the United States

SUNBEAM PRODUCTS, INC.,

Petitioner,

v.

WING SHING PRODUCTS (BVI) LTD.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Did the panel of the Court of Appeals for the Federal Circuit that decided this case err in analyzing the patent-in-suit on the basis of what "concept" it "contain[ed]," given relevant decisions of this Court and other panels of the Federal Circuit which establish that patents are not granted for concepts?

2. Did the Court of Appeals for the Federal Circuit improperly incorporate into the statutory framework of 35 U.S.C. § 116 a requirement that a joint inventor's contribution to a patent had to be "significant," and, accordingly, did the Federal Circuit err in concluding that a party's employees who collaborated on a patented design and suggested features that were claimed in the design were not joint inventors of the patent?

CORPORATE DISCLOSURE STATEMENT

Petitioner Sunbeam Products, Inc. (d/b/a Jarden Consumer Solutions) identifies the following parent corporations and any publicly held company that owns 10% or more of the corporation's stock: Jarden Corporation; American Household, Inc.; and Sunbeam American Holdings, Limited.

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Petitioner Sunbeam Products, Inc. hereby petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit entered on August 24, 2005.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit was not designated for publication by the Court but is set forth at 2005 U.S. App. LEXIS 18241 (Fed. Cir. Aug. 24, 2005) and in the Appendix ("App.") at 1a-17a. The opinions of the District and Bankruptcy Courts are reported at 311 B.R. 378 (S.D.N.Y. 2004) and 293 B.R. 586 (S.D.N.Y. 2003), respectively, and are set forth in the Appendix at App. 18a-117a.

STATEMENT OF JURISDICTION

The judgment of the Court of Appeals for the Federal Circuit was entered on August 24, 2005. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

The Bankruptcy Court had jurisdiction to hear this action pursuant to 28 U.S.C. § 157(b) and 28 U.S.C. § 1334(b) (App. 60a). The District Court had jurisdiction to hear Sunbeam's appeal pursuant to 28 U.S.C. § 158(a). The Court of Appeals for the Federal Circuit had jurisdiction to hear the appeal of the District Court's decision pursuant to 28 U.S.C. § 1295 (App. 5a-7a).

STATUTORY PROVISION INVOLVED

The statutory provision involved in this case is Section 116 of Title 35 of the United States Code. The first paragraph of Section 116, pertinent to the issues here, provides that:

When an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even though (1) they did not physically work together or at the same time, (2) each did not make the same type or amount of contribution, or (3) each did not make a contribution to the subject matter of every claim of the patent.

STATEMENT OF THE CASE

This is a case between a U.S. company and a foreign-based supplier that collaborated on the development of a new product and a design patent related to that product. This case raises two significant issues concerning the joint inventorship of the design patent.

The first issue is whether the lower courts began their analyses of joint inventorship by incorrectly analyzing the scope of patent protection under the Patent Code. Both the District Court and Court of Appeals for the Federal Circuit ("Federal Circuit") started with a statement that a patented design must contain "an inventive concept" (App. 8a, 28a). But this is not the law. In accordance with well-settled Supreme Court precedent, patents are not granted for "concepts." *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)

("concepts are not patentable"). See also *Parker v. Flook*, 437 U.S. 584, 589 (1978); *Westinghouse v. Boyden Power Brake Co.*, 170 U.S. 537, 555-56 (1898) (patents are not granted for "abstraction[s]"). Design patents are granted for the visual appearance and specific design characteristics created by what is illustrated in the patent drawings. 35 U.S.C. § 171; 37 C.F.R. § 1.153(a).

The lower courts' "concept" test also ignored the Federal Circuit's own prior authorities, cited in Sunbeam's briefs on appeal (see, e.g. Brief of Appellant at 43-45), but never discussed in the Federal Circuit's August 24, 2005 decision (App. 1a-17a). These prior authorities include *Durling v. Spectrum Furniture Co.*, 101 F.3d 100 (Fed. Cir. 1996) and *In re Harvey*, 12 F.3d 1061, 1064 (Fed. Cir. 1993). In *Durling*, 101 F.3d at 104, Judge Clevenger explained, "By focusing on the design concept of Durling's design rather than its visual appearance, the district court erred." In *In re Harvey*, 12 F.3d at 1064, Judge Michel explained that the Patent Office erred in considering "the prior art Harvey vase as a 'design concept' rather than for its specific design characteristics. Design patent references must be viewed in the latter fashion." See also *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 949 (Fed. Cir. 1987) ("It is axiomatic under our precedent that one cannot obtain patent protection for an inventive concept or for the heart or 'essence' of an invention or for an achieved result.").

In this case, Judge Bryson, speaking for a panel that also included Judge Rader and Judge Linn, relied instead on another decision, *Hoop v. Hoop*, 279 F.3d 1004 (Fed. Cir. 2002) to support the use of "an inventive concept" test (App. 8a). However, *Hoop* is inapposite. *Hoop* is a case about whether the Hoop plaintiffs, on the one hand, or the Hoop

defendants, on the other hand, were the *sole* inventors of a particular design. The *Hoop* Court never decided the question of whether plaintiffs were *joint* inventors with the defendants, the issue presented here. But even if *Hoop* was relevant, it highlights in the context of this case a split of authority at the Federal Circuit. As Judge Lourie said in his dissent in *Hoop* (279 F.3d at 1009), “[d]esign patents do not claim concepts. They claim specific designs set forth in their claims, which invariably refer to the appearance of what is illustrated in the patent’s drawings. 37 C.F.R. § 1.153(a) (2001).” This statement echoes Judge Lourie’s earlier statement for the Federal Circuit panel in *OddzOn Prods., Inc. v. Just Toys*, 122 F.3d 1396, 1405 (Fed. Cir. 1997) (“[T]he scope of the patent [is] to its overall ornamental visual impression, rather than to the broader general design concept. . . .”). As a result, Judge Lourie (in *OddzOn Prods.* and in his dissent in *Hoop*), Judge Clevenger (in *Durling*) and Judge Michel (in *Harvey*) have now clearly confirmed the principle that design patents do not claim concepts. On the other hand, Judge Mayer, the author of *Hoop*, and Judge Bryson have said the opposite.

Accordingly, Sunbeam believes that there is a question presented for Supreme Court review concerning whether the “concept” test applied in this case conflicts with relevant decisions of the Supreme Court and the decisions of other panels of the Federal Circuit.

The second issue concerns the proper legal interpretation of 35 U.S.C. § 116 on joint inventorship. The work that resulted in the patent-in-suit was the joint collaboration of a U.S. company (Mr. Coffee, the predecessor to the petitioner, Sunbeam) and a foreign company based in Hong Kong (the respondent, Wing Shing). The Bankruptcy Court held that Mr. Coffee had suggested seven features which were

incorporated into the patented design (App. 61a-62a), and the District Court held that Mr. Coffee "jointly develop[ed] the Patent with Wing Shing" (App. 37a). The Federal Circuit, however, said that this was not enough. It said that, because the Bankruptcy Court had held that Mr. Coffee's contributions were not "significant," considering the overall appearance of the coffeemaker, Mr. Coffee's employees were not entitled to be joint inventors (App. 8a-5a). But what the Federal Circuit misanalyzed is that there is no "significance" requirement in Section 116. Indeed, 35 U.S.C. § 116 says "[i]nventors may apply for a patent jointly even though . . . each did not make the same type or amount of contribution. . . ."

In order to properly protect the joint development of intellectual property rights, both in this case and in future collaborative enterprises, this Court should grant certiorari to resolve the lower courts' incorrect interpretation of 35 U.S.C. § 116.

A. The Parties And The Patent In Suit

Sunbeam is the petitioner. In 1998, it acquired Signature Brands, Inc., which had previously acquired Mr. Coffee (App. 58a). As used in this petition, Sunbeam and Mr. Coffee are sometimes referred to collectively as "Sunbeam."

Wing Shing, the respondent, is a company organized under the laws of the British Virgin Islands. It does business in Hong Kong (App. 58a).

In July 1991, Wing Shing's president, John Sham ("Sham"), approached Mr. Coffee to inquire about the possibility of entering into a business relationship. Sham offered to manufacture and sell a coffeemaker to Mr. Coffee.

Mr. Coffee decided to work with Sham to modify Sham's proposed design and to create a *different* "European-styled" coffeemaker (App. 20a). Between October 1991 and March 1992, Mr. Coffee's employees, including Jeffrey Blackwell (Mr. Coffee's Senior Vice President of Operations and the head of the collaborative project for Mr. Coffee), Kim Pastrick (of Mr. Coffee's Marketing Department) and Lawrence Pillion (of Mr. Coffee's Engineering Department), worked with Sham to develop this different coffeemaker. This different coffeemaker was called the AD10 coffeemaker.

During this development effort, Mr. Coffee suggested a number of changes to Sham's original proposed design. These suggestions included the following (App. 61a-62a):

- a. Mr. Coffee's employees eliminated ridges on the coffeemaker's reservoir cover. (Sham's original design had ridges.)
- b. Mr. Coffee's employees eliminated grooves on the brew basket. (Sham's original design had grooves.)
- c. Mr. Coffee's employees moved the coffeemaker's power switch to the column. (In Sham's original design, the power switch was on the base.)
- d. Mr. Coffee's employees added a shroud to the power switch. (Sham's original design did not have a shroud.)
- e. Mr. Coffee's employees changed the direction by which the brew basket opened. (In Sham's original design, the brew basket opened from right to left.

Mr. Coffee's employees changed that direction from left to right.)

- f. Mr. Coffee's employees moved the water-level gauge to the left side of the coffeemaker. (The gauge was originally on the right side of the coffeemaker.)
- g. Mr. Coffee's employees inserted a bottom metal plate. (Sham's original design had an all plastic bottom.)

On July 13, 1992, almost a year after his first meeting with Mr. Coffee and after the input from Mr. Coffee's employees, Sham secretly filed a design patent application for the AD-10 coffeemaker. Sham did not tell Mr. Coffee. *The design shown in the drawings of this application, and the subsequently issued patent, included Mr. Coffee's seven contributions.*

Sham could have tried to patent his original proposal. But he chose not to. Sham also could have excluded Mr. Coffee's contributions from the claimed design by drawing the features suggested by Mr. Coffee in broken lines.¹ This would have told the world that Sham did not consider Mr. Coffee's contributions to be part of the claimed invention. But Sham chose not to do this either. Instead, Sham sought patent protection for the *entirety* of the design of the AD-10 coffeemaker — *the design that both parties worked on together for months and that included Mr. Coffee's*

1. *Contessa Food Prods., Inc. v. Conagra, Inc.*, 282 F.3d 1370, 1378 (Fed. Cir. 2002) ("If features appearing in the figures are not desired to be claimed, the patentee is permitted to show the features in broken lines to exclude those features from the claimed design. . . .").

contributions — and claimed the design as his own, without naming Mr. Coffee's contributors (Ms. Pastrick and Mr. Pillion) as co-inventors.

This design application issued as U.S. Patent No. D348,585 ("the '585 patent") on July 12, 1994.

B. The Proceedings Below

On February 23, 2001, Sunbeam, then in bankruptcy, sought a judgment declaring (1) that it was the exclusive owner of the '585 patent; (2) that it had an indefinite exclusive license to market and sell AD coffeemakers in the United States, Canada, and Mexico; and (3) that it could contract with the supplier of its choice for the manufacture of the AD coffeemakers. Wing Shing denied Sunbeam's claims and filed a counterclaim that sought: (1) to enjoin Sunbeam from infringing the '585 patent; (2) damages and/or the total profits from Sunbeam for the alleged infringement of the '585 patent; (3) treble damages; and (4) its costs relating to the action, including attorneys' fees.

The parties stated in the Joint Pretrial Order that joint inventorship was one of the issues in dispute (App. 6a). A trial was held on December 11-12, 2001 and January 31, 2002.

1. The Bankruptcy Court Decision

On June 3, 2003, the Bankruptcy Court held that Mr. Coffee's employees were not joint inventors of the '585 patent (App. 94a-102a).²

2. The Bankruptcy Court also entered other findings. Because these findings are not the subject of this petition, Sunbeam provides only the
(Cont'd)

Importantly, in reaching its conclusion on inventorship, the Bankruptcy Court explicitly found that Mr. Coffee's employees suggested a number of changes to Wing Shing's proposed coffeemaker. The Court found that these changes included: eliminating ridges on the reservoir cover, eliminating grooves on the brew basket, moving the power switch to the column, adding a shroud to the power switch, opening the brew basket from left to right, moving the water-level gauge from the right to left side of the coffeemaker, and inserting a bottom metal plate (App. 61a-62a).

In the end, however, the Bankruptcy Court discounted these seven changes, stating that Mr. Coffee's contributions were not "significant enough in quality" to the overall appearance of the coffeemaker (App. 101a):

[I]f the Court was to give weight to the overall appearance of the Design Patent, including the well-known concepts and functional aspects proposed by Mr. Coffee, the Court finds that Mr. Coffee's contribution to the Design Patent was

(Cont'd)

following summary. The Bankruptcy Court held, in Sunbeam's favor, that (1) the doctrine of laches precluded Wing Shing from recovering pre-suit damages; (2) Wing Shing was not entitled to pre-suit damages because it failed to provide adequate notice of infringement under 35 U.S.C. § 287(a); (3) Wing Shing was not entitled to its lost profits; (4) Wing Shing was not entitled to treble damages; and (5) Wing Shing was not entitled to its attorneys' fees. In addition, the Court ruled in Wing Shing's favor on some issues. The Bankruptcy Court held that (1) Wing Shing was not equitably estopped from charging Sunbeam with infringement of the '585 patent; (2) an Agreement between the parties did not assign the '585 patent to Sunbeam; and (3) that Agreement also did not grant Sunbeam a permanent license under the '585 patent.

not significant enough in quality when measured against the dimension of the full invention so as to achieve co-inventor status.³

2. The District Court's Decision

In accordance with 28 U.S.C. § 158(a), Sunbeam sought review of the Bankruptcy Court's decision in the District Court for the Southern District of New York. Sunbeam asked, *inter alia*, that the District Court review the Bankruptcy Court's determination that Mr. Coffee's employees were not

3. In addition to considering the overall appearance of the design, the Bankruptcy Court also said that Mr. Coffee's seven contributions, if taken individually, were either "functional" or "state of the art" changes (App. 96a-100a). These separate findings are inapposite. First, Wing Shing never disclaimed these features from the claimed "ornamental" design with the use of dotted or broken lines. *Contessa Food Prods., Inc.*, 282 F.3d at 1378 ("If features appearing in the figures are not desired to be claimed, the patentee is permitted to show the features in broken lines to exclude those features from the claimed design. . ."). Therefore, by their inclusion in the design and the claim language ("the *ornamental* design for a coffee maker, as shown and described"), Wing Shing admitted that these features were being claimed for their ornamental characteristics, not their functional characteristics.

Second, whether or not individual elements are known in the art is irrelevant. See *Intel Corp. v. United States Int'l Trade Comm'n*, 946 F.2d 821, 842 (Fed. Cir. 1991) ("Virtually all inventions are combinations and virtually all are combinations of old elements.") (citation omitted). It is the particular combination of these old features that, if new, makes an invention patentable. *Clearstream Wastewater Sys., Inc. v. Hydro-Action, Inc.*, 206 F.3d 1440, 1445 (Fed. Cir. 2000) ("Combination claims can consist of new combinations of old elements or combinations of new and old elements."). Sham clearly thought that he had a new combination (with the addition of Mr. Coffee's features) because he sought patent protection on this "new combination."

joint inventors of the '585 patent. The District Court considered this issue (and the other issues on appeal).

In a July 29, 2004 decision, the District Court affirmed the Bankruptcy Court's decision that Mr. Coffee's employees were not joint inventors of the '585 patent (App. 27a-31a). In reaching this conclusion, the District Court adopted an inventorship test based on *Hoop*, 279 F.3d 1004. The District Court said (App. 28a):

To qualify as a joint inventor, the differences between the original design and the improved design must be significant — the improved design must contain an inventive *concept*.⁴ See *id.* [*Hoop v. Hoop*, 279 F.3d at 1007]. "The ultimate test for design-patent inventorship, like the test for anticipation and infringement, is whether the [improved] invention is 'substantially similar' to the [original]." *Id.* This essentially means that, if the improved design could not be found to infringe the original design, the person responsible for the alterations is a joint inventor because their improvements were significant.

On the other hand, the District Court also reversed in part the Bankruptcy Court's decision. Specifically, the District Court held that Wing Shing had breached a contract with Mr. Coffee when it did not negotiate the patent rights to jointly developed technology. In ruling on this issue, the District Court held that Mr. Coffee and Wing Shing jointly developed the patented design (App. 37a):

4. Emphasis is added throughout the petition, unless otherwise noted.

From 1991, when Wing Shing first gave sketches of a coffeemaker design to Mr. Coffee, through spring of 1992, when the AD10 design was completed, the parties refined the AD10 design. There is no dispute that Mr. Coffee made contributions to the development of the AD10 during this time. . . . *The Court finds that Mr. Coffee did jointly develop the Patent with Wing Shing. . . .*

However, the District Court then ruled that the statute of limitations barred Sunbeam's recovery for this breach of contract (App. 38a-40a).

3. The Federal Circuit's Decision

Sunbeam timely appealed to the Federal Circuit on a number of issues, including whether the District Court erred in finding that Mr. Coffee's employees, including Ms. Pastrick and Mr. Pillion, were not joint inventors of the '585 patent. (Brief of Appellant at 3.) Sunbeam explained that the District Court improperly tried to equate the inventorship test to a consideration of "concepts" (Brief of Appellant at 1-2, 41-46). In addition, Sunbeam explained that the District Court's conclusion was inconsistent with the proper application of the law of joint inventorship to the facts of this case (*Id.* at 39-51).

On August 24, 2005, a panel of the Federal Circuit (Judge Rader, Judge Bryson and Judge Linn) affirmed the District Court's decision. Judge Bryson, writing for the panel, said that it was appropriate to utilize a "concept" test based on *Hoop* (App. 8a):

Sunbeam argues that the district court applied the wrong test when it ruled that the "improved

design must contain an inventive concept.” We disagree. In *Hoop v. Hoop*, 279 F.3d 1004, 1007 (Fed. Cir. 2004 [sic, 2002]), we stated that “minor differences between the prior art and the new claim will not suffice” to make the person who suggested the changes that resulted in the differences an inventor. We added that the differences “must be substantial and not just superficial; *the new design must contain an inventive concept.*” *Id.* The district court therefore did not err by employing the “inventive concept” test.

The Federal Circuit panel also affirmed the District Court, on the basis of the Bankruptcy Court’s finding that Mr. Coffee’s contributions were not “significant” when the overall appearance of the coffeemaker was considered. Judge Bryson said (App. 8a-9a):

Furthermore, the bankruptcy court found that the Mr. Coffee employees’ contributions were not significant, considering the overall appearance of the coffeemaker as well as the limited and mainly functional nature of the suggested changes . . . In the present case, the changes suggested by Mr. Coffee are no more significant than those made by the party claiming inventorship in *Hoop*. Accordingly, we affirm the bankruptcy court’s ruling that Mr. Coffee was not a joint inventor of the ‘585 patent.

REASONS FOR GRANTING THE PETITION

The decision below is in direct conflict with this Court's precedent, the law as developed by other panels of the Federal Circuit, and the legal principles of joint inventorship, including the legislative history of 35 U.S.C. § 116.

First, the "concept" test, enunciated in *Hoop*, and relied upon here is directly contrary to over a century of Supreme Court precedent. *Gottschalk*, 409 U.S. at 67 ("concepts are not patentable"); *Westinghouse*, 170 U.S. at 555-56. It is also in conflict with relevant Federal Circuit law.

Second, the Federal Circuit's and District Court's joint inventorship analyses, which considered whether Mr. Coffee's contributions were "significant," ignore the explicit language of 35 U.S.C. § 116 — "[i]nventors may apply for a patent jointly even though . . . each did not make the same type or amount of contribution." There is no "significance" test in the statute. Given the Bankruptcy Court's finding that Mr. Coffee suggested seven features incorporated into the patented design and the District Court's finding that Mr. Coffee and Wing Shing "jointly develop[ed]" the patented design, it was error to have denied Mr. Coffee's employees joint inventor status.

I. THE FEDERAL CIRCUIT HAS DEPARTED FROM THIS COURT'S PRECEDENT ON THE UNPATENTABILITY OF "CONCEPTS"

A. This Court Has Held That Concepts Are Not Patentable

Patents are not granted for abstract ideas or concepts. As this Court explained over a century ago in *Westinghouse*, 170 U.S. at 555-56:

"[I]t is well settled that a man cannot have a patent for the function or abstract effect of a machine, but only for the machine which produces it." (quoting *Corning v. Burden*, 56 U.S. (15 How.) 252 (1854)).

....

"... We find here no authority to grant a patent for a 'principle' or a 'mode of operation' or an idea, or any other abstraction." (quoting *Burr v. Duryee*, 68 U.S. (1 Wall) 531, 570 (1864)).

....

"... [N]or will a patent be held valid for a principle or an idea, or any other mere abstraction." (quoting *Fuller v. Yentzer*, 94 U.S. 288 (1877)).

This principle was reiterated in 1972 when this Court specifically stated in *Gottschalk*, 409 U.S. at 67, that "concepts are not patentable":

[This Court has] followed the longstanding rule that "[a]n idea of itself is not patentable." *Rubber-Tip Pencil Co. v. Howard*, 20 Wall. 498, 507. "A principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right." *Le Roy v. Tatham*, 14 How. 156, 175. Phenomena of nature, though just discovered, mental processes, and abstract intellectual *concepts are not patentable*, as they are the basic tools of scientific and technological work.

See also *Parker*, 437 U.S. at 589 ("concepts are not patentable").

Because patents are not granted for "concepts," it follows that inventorship determinations for patents also can not be based on concepts. But that is precisely what the lower courts did here. Both the District Court and Federal Circuit invoked language from *Hoop* on "an inventive concept" (App. 8a, 28a). But if *Hoop* now stands for the proposition that patents are granted for "concepts," the Federal Circuit has improperly departed from over a century of Supreme Court precedent.

B. Given The Federal Circuit's Reliance In This Action On A "Concept" Test, There Is Now A Split Of Authority Within The Federal Circuit

In 1984, two years after its formation, the Federal Circuit confirmed the many years of Supreme Court precedent establishing that patents are not granted for concepts. For example, in *RCA Corp. v. Applied Data Sys., Inc.*, 730 F.2d 1440, 1445 n.5 (Fed. Cir. 1984), Judge Nies, writing for the

majority, explained this principle in the context of a utility patent:

The dissent [in this case] appears to endorse the district court's view that RCA has patented a "system concept" which produces an end result. It is hornbook law that abstractions, i.e., *concepts*, are not patentable *subject matter*. Under this view of the patent, with which we do not agree, the claims would be invalid under 35 U.S.C. § 101 or § 112.

Judge Nies confirmed this legal principle again in her "additional views" in *Pennwalt Corp.*, 833 F.2d 931. "It is axiomatic under our precedent that *one cannot obtain patent protection for an inventive concept* or for the heart or 'essence' of an invention or for an achieved result." 833 F.2d at 949.

This prohibition against the analysis of patents based on "concepts" also applies to design patents. Thus, in *Durling*, 101 F.3d at 104, Judge Clevenger stated:

The district court's verbal description of Durling's claimed design does not evoke a visual image consonant with the claimed design. . . . By focusing on the *design concept* of Durling's design rather than its visual appearance, the district court erred.

Judge Lourie further explained this principle in *OddzOn Prods., Inc. v. Just Toys*, 122 F.3d 1396, 1405 (Fed. Cir. 1997): "We agree with the district court's claim construction, which properly limits the scope of the patent to its overall

ornamental visual impression, rather than to the broader general *design concept* of a rocket-like tossing ball. See *Durling v. Spectrum Furniture Co.*, 101 F.3d 100, 104, 40 USPQ2d 1788, 1791 (Fed. Cir. 1996)."

Similarly, in *In re Harvey*, 12 F.3d at 1064, Judge Michel held that the United States Patent and Trademark Office Board of Patent Appeals and Interferences had erred in considering "the prior art Harvey vase as a 'design concept' rather than for its specific design characteristics. Design patent references must be viewed in the latter fashion."

However, despite this long history of legal authority explaining the impropriety of analyzing patents based on "concepts," the Federal Circuit abruptly did an about-face in the context of design patents. In 2002, Judge Mayer, writing for the majority in *Hoop*, 279 F.3d at 1007, said:

Minor differences between the prior art and the new claim will not suffice. *In re Zemon*, 40 C.C.P.A. 1051, 205 F.2d 317, 320, 98 USPQ 223, 224 (CCPA 1953). The differences here must be substantial and not just superficial; *the new design must contain an inventive concept. Id.*

But Judge Lourie, in a dissent in *Hoop*, reiterated his analysis from *OddzOn* and explained again that design patents are not granted for concepts (a view shared by Judge Clevenger and Judge Michael in *Durling* and *Harvey*, respectively):

Design patents do not claim concepts. They claim specific designs set forth in their claims, which invariably refer to the appearance of what

is illustrated in the patent's drawings. 37 C.F.R. § 1.153(a) (2001). Contrary to the conclusion of the district court, as the invention is not the concept of an eagle design, but only the specific claimed representation of that eagle, the "concept" of the design is not what one must look at in determining whether the inventions are one and the same or separate. *See In re Harvey*, 12 F.3d 1061, 1064, 29 USPQ2d 1206, 1208 (reversing a finding of obviousness under 35 U.S.C. § 103 because it "should have focused on actual appearances rather than 'design concepts'"). One must look at the differences between the overall appearance of the eagles to determine inventorship of the specific design.

279 F.3d at 1009.

As a result of these legal developments, there is now a split among the various Federal Court panels concerning the scope of patent protection, and this split is particularly noticeable in the field of design patents — with Judge Lourie, Judge Michel and Judge Clevenger stating that design patents do not claim concepts and Judge Mayer in *Hoop* and Judge Bryson in this case adopting such a "concept" test.

II. THE FEDERAL CIRCUIT IMPROPERLY APPLIED THE LAW OF JOINT INVENTORSHIP

Not only did the Federal Circuit incorrectly use a "concept" test in assessing the legal issues in this case, but it also placed undue reliance on the Bankruptcy Court's original conclusion that Mr. Coffee's changes to Sham's original design were not "significant" (App. 8a, 101a).

There is no requirement in the Patent Statute that joint inventorship status hinges on whether a person's contribution is "significant." Such an interpretation is contrary to the plain language of 35 U.S.C. § 116, the legislative history of § 116, and the applicable authorities in light of this legislative history.

Section 116 of 35 U.S.C. sets forth guidelines for determining inventorship. Prior to 1984, this section read (in pertinent part) as follows:

When an invention is made by two or more persons jointly, they shall apply for patent jointly and each sign the application and make the required oath, except as otherwise provided by this title.

In 1984, the Patent Law Amendments Act of 1984 (Public L. No. 98-622, 98 Stat. 3383) amended Section 116. After the 1984 Amendments, the statute read (in pertinent part):

When an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even though (1) they did not physically work together or at the same time, (2) each did not make the same type or amount of contribution, or (3) each did not make a contribution to the subject matter of every claim of the patent.

As explicitly stated in subsection (2), persons can apply for a patent even though "each did not make the same type or amount of contribution." As the Federal Circuit itself

acknowledged in *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1461-65 (Fed. Cir. 1998) (Brief of Appellant at 40- 41), but ignored in its opinion below, an individual who contributed two features to a claim for a surgical instrument with at least eight components was a joint inventor of that claim. Similarly, here, the lower court found that Mr. Coffee had contributed to the claimed design (the patent was jointly developed by Wing Shing and Mr. Coffee with Mr. Coffee contributing seven features). It was error to have ignored this finding and to have relied instead on a "significance" test which is not recited in the statute.

Such a "significance" test, as applied by Judge Bryson here, also conflicts with the legislative history of the 1984 Amendments to Section 116. The 1984 Amendment to Section 116 was drafted by the American Intellectual Property Law Association. In its commentary, the Association stated that it was seeking to codify the law of inventorship as articulated in specific district court cases. The proposed language of subsection (2) was adopted from the holding in *Monsanto v. Kamp*, 269 F. Supp. 818 (D.D.C. 1967).⁵ Congress adopted this

5. 129 Cong. Rec. H2683 - 85 (Daily ed. June 13, 1984) (letter of March 15, 1984 from Michael Bloomer, Executive Director of AIPLA to Congressman Robert W. Kastenmeier):

Determinations of inventorship in patent law are recognized as different (sic, difficult) undertakings and the amendment seeks to clarify and, to the extent possible, simplify such undertakings in adopting and introducing into section 116 some principles set forth in judicial precedents.

The amendments to section 116, in (i) and (ii), adopt as statutory criteria the pertinent principles of *Monsanto Co. v. Kamp*.

(Cont'd)

recommendation of the American Intellectual Property Law Association.⁶

In *Monsanto*, 269 F. Supp. at 824, the Court explained that collaboration is a feature of joint inventorship:

(Cont'd)

The amendment to section 116 also provides that inventors may apply for a patent jointly even though each did not make a contribution to the subject matter of every claim of the patent. . . . While the principle that each inventor does not have to make a contribution to every claim of the patent was recognized by the court in *SAB Industri v. Bendix Corp.*, 199 USPQ 95 (E.D. Va. 1978), it is appropriate that the principle be incorporated into section 116 in order to clarify the criteria for joint inventorship.

6. Congressman Kastenmeier, Chairman of the Subcommittee on Courts, Civil Liberties and the Administration of Justice of the House Judiciary Committee, inserted into the *Congressional Record* a "Section by Section Analysis" of the legislation which confirmed that subsection 2 of the statute was intended to adopt the rationale of *Monsanto*:

Subsection (a) of section 105 amends section 116 of the patent law to allow inventors to apply for a patent jointly even though (i) they did not physically work together at the same time, (ii) each did not make the same type or amount of contribution, or (iii) each did not make a contribution to the subject matter of every claim of the patent. Items (1) [sic] and (ii) adopt the rationale of decisions such as *Monsanto v. Kamp*, 269 F. Supp. 818, 154 USPQ 259 (D. D.C. 1967). Item (iii) adopts the rationale of cases such as *SAB Industri AB v. Bendix Corp.*, 199 USPQ 95 (E.D. Va. 1978).

130 Cong. Rec. H10527 (Oct. 1, 1984).

A joint invention is the product of *collaboration* of the inventive endeavors of two or more persons working toward the same end and producing an invention by their aggregate efforts. To constitute a joint invention, it is necessary that each of the inventors work on the same subject matter and make some contribution to the inventive thought and to the final result. Each needs to perform but a part of the task if an invention emerges from all of the steps taken together.

The Court also explained that each joint inventor did not have to make the same type or amount of contribution (*Id.*):

The fact that each of the inventors plays a different role and that the contribution of one may not be as great as that of another, does not detract from the fact that the invention is joint, if each makes some original contribution, though partial, to the final solution of the problem.

If the Federal Circuit had properly applied the law, as set forth in Section 116 and articulated in *Monsanto*, it is clear that Mr. Coffee's employees are joint inventors. In the language of *Monsanto*, the coffeemaker depicted in the design patent is the "collaboration" of Wing Shing and Mr. Coffee. And,

[t]he fact that each of the inventors play[ed] a different role and that the contribution of one may not be as great as that of another, does not detract from the fact that the invention is joint, if each

makes some original contribution, though partial, to the final solution of the problem.

Id. Here, the Bankruptcy Court already found that Mr. Coffee's employees made such a contribution to the final solution of the problem. They contributed seven features to this jointly developed coffeemaker (App. 61a-62a). Mr. Coffee's employees, therefore, should have been named as joint inventors.

Additionally, the facts in *Monsanto* are analogous. There, the two inventors, Kamp and Jahn, "were in frequent consultation with each other concerning various aspects of the project. . . . There was an interchange of ideas between the two, until finally a consummation was reached." 269 F. Supp. at 825. Similarly, here, there was frequent consultation between Mr. Coffee's employees and Wing Shing's Sham until "consummation" of the final AD-10 coffeemaker design, which contained Mr. Coffee's seven contributions (App. 61a-62a).

There is simply no legal rationale for the Federal Circuit to have discounted Mr. Coffee's collaborative efforts with Wing Shing and its contribution of the seven features to the patented design. A separate "significance" test, adopted by the Federal Circuit, should not be imposed, particularly when it is not present in 35 U.S.C. § 116, and is contrary to Section 116's explicit language (*i.e.* inventors may apply for a patent even though "each did not make the same type or amount of contribution"). The District Court compounded this error when it referred to a "significant" difference as one that contains an "inventive concept" (App 28a). As described above, patents are not granted for "concepts" (*supra*, pp. 15-19).

The issue of joint inventorship is important today. "The creative industries have evolved: collaborative production is replacing individual effort." Rochelle Dreyfuss, *Collaborative Research: Conflicts on Authorship, Ownership, and Accountability*, 53 Vand. L. Rev. 1162, 1163 (2000). Given this prevalence of collaboration in today's business environment, the Court should grant this petition, so that the law of joint inventorship can be considered and clearly defined for future collaborative efforts.

III. THIS CASE IS A GOOD VEHICLE FOR RESOLVING THE QUESTIONS PRESENTED

This case presents a timely opportunity for the Court to review the Federal Circuit's use of a "concept" test and to consider whether the joint inventor standard, as articulated by the Federal Circuit in this case, is contrary to the language of 35 U.S.C. § 116.

First, the prohibition against obtaining patents for "concepts" has been a part of Supreme Court precedent for over a century. The Federal Circuit recently departed from this precedent in *Hoop*, and has done it here again. To prevent this incorrect legal principle from taking on a life of its own, the Court should grant certiorari.

Second, on November 2, 2005, the Court granted certiorari in *Lab. Corp. of Am. Holdings v. Metabolite Labs. Inc.*, No. 04-607 (U.S. 2005) ("*LabCorp*"). During consideration of *LabCorp*'s petition for certiorari, the Court invited the government to brief the issue of whether the patent claim in that case (a method claim) was "invalid because one cannot patent 'laws of nature, natural phenomena and abstract ideas.'" (See 02/28/05 Order inviting the Solicitor

General to file a brief on this question). Ultimately, the Court accepted LabCorp's "Question Presented" that corresponded to this issue put to the government. Similarly, here, it would also be proper for the Court to grant certiorari to confirm that "concepts" are not patentable in the context of design patent claims.

Third, this case has a clear factual setting for deciding the issues presented. The patent in suit has one claim ("The ornamental design for a coffee maker, as shown and described"). And, the claimed coffeemaker is based on familiar technology. The fact findings are also straightforward. The Bankruptcy Court found that Mr. Coffee's employees contributed seven features which were incorporated into the claimed design, and the District Court held that Mr. Coffee jointly developed the patent with Wing Shing. The sole dispute is the legal conclusions which flow from those findings. The Court will have a straightforward record to consider whether there is a separate "significant" contribution requirement (whatever "significant" means in this context) for joint inventor status when the language of the statute (35 U.S.C. § 116) does not impose such a requirement.

CONCLUSION

For the reasons stated, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

**APPENDIX A — OPINION OF THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL
CIRCUIT DATED AUGUST 24, 2005**

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

04-1526, -1537

SUNBEAM PRODUCTS, INC.,

Plaintiff-Appellant,

v.

WING SHING PRODUCTS (BVI) LTD.,

Defendant-Cross Appellant.

DECIDED: August 24, 2005

Before RADER, BRYSON, and LINN, *Circuit Judges*.

BRYSON, *Circuit Judge*.

Appellant Sunbeam Products, Inc., appeals from a decision of the United States District Court for the Southern District of New York, 311 B.R. 378, affirming in part and reversing in part a decision of the United States Bankruptcy Court for the Southern District of New York, 293 B.R. 586. Appellee Wing Shing Products (BVI) Ltd. cross-appeals.¹ We *affirm*.

1. The appellee is one of a family of companies under common ownership and control. We refer to them collectively and individually as "Wing Shing."

*Appendix A***I**

In June 1991, John Sham, the president of Wing Shing, approached Jerry Blackwell, then a vice-president of Sunbeam's predecessor, a company known as Mr. Coffee. Mr. Sham offered to manufacture coffeemakers for Mr. Coffee, and he provided Mr. Blackwell with sketches of a design for the proposed coffeemaker. In response to questions from Mr. Blackwell, Mr. Sham provided a photograph of a wooden model of the coffeemaker. Between August 1991 and early 1992, employees of Mr. Coffee had a series of communications with representatives of Wing Shing regarding the coffeemaker design. In the course of those communications, Mr. Coffee employees asked that the design be changed by (1) eliminating grooves on the brew basket; (2) eliminating ridges on the reservoir cover; (3) moving the power switch from the base to the left column; (4) opening the brew basket from the left to right; (5) moving the water-level gauge from the right column to the left column; (6) inserting a metal plate on the bottom of the base; and (7) adding a shroud around the power switch. Wing Shing incorporated those changes into the design, which became known as the "AD10" model design.

On June 22, 1992, Mr. Coffee entered into an agreement with Wing Shing to purchase AD10 model coffeemakers from Wing Shing. The agreement contained several clauses pertinent to this case. It provided that: (1) the agreement was to be effective between January 7, 1992, and December 31, 1994; (2) "[a]ny and all existing patent rights for the units or any of its component parts shall be the sole and exclusive property and/or responsibility of Mr. Coffee"; and (3) the

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parties would negotiate patent rights before applying for a patent on any jointly developed patentable items.

After the execution of the agreement, Wing Shing began to supply coffeemakers to Mr. Coffee. Unbeknownst to Mr. Coffee, on July 13, 1992, Mr. Sham filed a design patent application for the design of the AD10 coffeemaker, listing himself as the sole inventor. That patent issued on July 12, 1994, as U.S. Design Patent No. 348,585 ("the '585 patent"). Wing Shing did not mark the AD10 coffeemakers as being covered by a patent after the '585 patent issued, however.

In November 1994, Mr. Coffee informed Wing Shing that Simatelex Manufactory Co., Ltd., was also producing the AD10 coffeemaker for Mr. Coffee. In March 1995, Wing Shing sent a telefax message to Mr. Coffee, stating that it had no objection to Mr. Coffee transferring the AD10 tooling to Simatelex. In that same telefax, Wing Shing informed Mr. Coffee that it had a design patent on the AD10 and therefore that it was entitled to sell the product to others. Although Wing Shing stated that the patent might result in business conflicts with Mr. Coffee, it never explicitly stated that Mr. Coffee was infringing the '585 patent. Wing Shing later conceded in the course of litigation that the March 1995 telefax did not constitute notice of infringement of the design patent.

By 2000, Sunbeam had acquired Mr. Coffee and had dramatically reduced the volume of AD10 coffeemakers it purchased from Wing Shing. Wing Shing then filed a patent infringement claim against Simatelex. Although Sunbeam was in bankruptcy, Wing Shing filed a motion for relief from the automatic stay in the Sunbeam bankruptcy proceedings. In response, Sunbeam sought enforcement of the automatic

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stay and commenced an adversary proceeding against Wing Shing in the bankruptcy court. In that proceeding, Sunbeam contended that Sunbeam was the exclusive owner of the '585 patent, had an indefinite exclusive license to market and sell the AD10 coffeemakers in certain markets, and had the right to choose any manufacturer to supply the AD10 coffeemaker. The bankruptcy court denied Wing Shing's motion to lift the automatic stay and enjoined Wing Shing from pursuing the district court patent infringement claim against Simatelex. In the adversary proceeding, Wing Shing filed an answer to Sunbeam's claims and counterclaimed, asking the bankruptcy court to enter a judgment enjoining Sunbeam from infringing the '585 patent and awarding Wing Shing damages for past infringement. In a joint pretrial order, the parties stipulated to the issues to be tried in that proceeding, which included the issue of joint inventorship.

The bankruptcy court tried the case, including the issues to which the parties stipulated in the pretrial order. At the conclusion of the trial, the court decided, *inter alia*, that (1) Sunbeam was not a joint inventor of the '585 patent; (2) Wing Shing was not barred by the doctrine of equitable estoppel from pursuing its infringement claim; (3) Wing Shing did not breach the agreement to negotiate patent rights, but even if it did, Sunbeam was barred by the statute of limitations from pursuing that claim; (4) Wing Shing was barred by the doctrine of laches from claiming damages for pre-suit infringement; (5) Wing Shing did not give Sunbeam notice of infringement prior to filing suit and for that reason as well was barred from claiming damages for pre-suit infringement; and (6) Sunbeam was entitled to deduct certain expenses of

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its Mr. Coffee line of products in calculating its profits on the products that incorporated the infringing design.

Sunbeam appealed to the district court from the first three rulings, and Wing Shing cross-appealed from the other three. The district court affirmed the bankruptcy court on all but two of the issues. The district court did not reach the laches issue, and it disagreed with the bankruptcy court as to the breach of contract issue, holding that Wing Shing had breached the agreement requiring it to negotiate patent rights on jointly developed patentable items. The court concluded, however, that even though Wing Shing had breached the agreement, Sunbeam's contract-based claim was barred by the applicable statute of limitations.

II

We first address whether we have jurisdiction over this appeal. Wing Shing argues that we do not have jurisdiction because Sunbeam did not assert a joint inventorship claim or a claim requiring resolution of a substantial question of patent law. Sunbeam responds that jurisdiction in this court is proper because its complaint sought a declaration from the court that it owned the '585 patent or had an exclusive license based on the "course of conduct" of the parties. Sunbeam alleged in its complaint that the design in Wing Shing's design patent "is the same as that contained in the Mr. Coffee specifications." Based on that allegation, it argues that the "course of conduct" allegation incorporated a joint inventorship claim into the complaint. In the alternative, Sunbeam maintains that the pretrial order, which clearly contemplated that the court would resolve the joint

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inventorship question, had the effect of amending its complaint to add a claim arising under the patent laws. Wing Shing counters that the pretrial order did not in fact amend the complaint to include the issue of joint inventorship.

This court has jurisdiction under 28 U.S.C. § 1295 when a district court had subject matter jurisdiction under 28 U.S.C. § 1338(a). *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002). Section 1338(a) provides subject-matter jurisdiction if the complaint alleges a patent law claim or a claim that depends on the resolution of a substantial question of patent law. *Id.* at 830; *see also Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988). We agree with Wing Shing that Sunbeam's complaint by itself does not allege a patent law claim or a claim that depends on the resolution of a substantial question of patent law. The complaint does not even mention joint inventorship, but instead requests relief based on a contract claim. The pretrial order, however, clearly identified the question whether Mr. Coffee employees were joint inventors of the '585 patent as an issue to be tried by the court. Moreover, the pretrial order stated that "the pleadings shall be deemed amended" to the extent necessary to allow Wing Shing to present its evidence at trial first. Thus, the order, which contemplated that joint inventorship was one of the issues in dispute, effectively amended Sunbeam's complaint to the extent necessary to allow orderly presentation of the stipulated issues.

Under these circumstances, it is fair to interpret the pretrial order as constructively amending the complaint to add the claim of joint inventorship. We have held that a

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district court "effected a constructive amendment of the complaint" when neither party objected to the district court adjudicating a joint inventorship claim that was not effectively pleaded in the plaintiff's complaint. *Eli Lilly & Co. v. Aradigm Corp.*, 376 F.3d 1352, 1357 (Fed.Cir.2004). We have also held that "[f]or the purpose of determining Federal Circuit jurisdiction, we do not differentiate between actual and constructive amendments [to the complaint]." *Chamberlain Group, Inc. v. Skylink Tech., Inc.*, 381 F.3d 1178, 1189 (Fed.Cir.2004). Because we interpret the complaint, as amended by the pretrial order, to raise the patent issue of joint inventorship, we hold that we have jurisdiction to decide this appeal.

III

With respect to the issue of joint inventorship, Sunbeam argues that because Mr. Coffee's employees suggested changes in the Wing Shing coffeemaker, they are joint inventors of the '585 patent as a matter of law. To support its argument, Sunbeam relies on *Pannu v. Iolab Corp.*, 155 F.3d 1344 (Fed.Cir.1998), in which we stated that "[b]ecause it is undisputed that the invention was conceived while Link and Pannu were engaged in a collaborative enterprise and it is furthermore undisputed that Pannu conceived significant aspects of the invention, Pannu is certainly at least a co-inventor." *Id.* at 1351. The bankruptcy court found, however, that "even if the Court was to give weight to the overall appearance of the Design Patent, including the well-known concepts and functional aspects proposed by Mr. Coffee, the Court finds that Mr. Coffee's contribution to the Design Patent was not significant in quality when measured against

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the dimension of the full invention.” The district court upheld that finding, holding that the bankruptcy court, as fact-finder, was not clearly erroneous in concluding that Mr. Coffee employees were not joint inventors, inasmuch as the patented design was “substantially similar” to the original version submitted by Mr. Sham, and the modified design did not contain any “inventive concept” that was absent from the original.

Sunbeam argues that the district court applied the wrong test when it ruled that the “improved design must contain an inventive concept.” We disagree. In *Hoop v. Hoop*, 279 F.3d 1004, 1007 (Fed.Cir.2004), we stated that “minor differences between the prior art and the new claim will not suffice” to make the person who suggested the changes that resulted in the differences an inventor. We added that the differences “must be substantial and not just superficial; the new design must contain an inventive concept.” *Id.* The district court therefore did not err by employing the “inventive concept” test. Furthermore, the bankruptcy court found that the Mr. Coffee employees’ contributions were not significant, considering the overall appearance of the coffeemaker as well as the limited and mainly functional nature of the suggested changes. In *Hoop*, we also articulated the ultimate test for design patent inventorship to be “whether the second asserted invention is ‘substantially similar’ to the first.” *Id.* (citations omitted). In particular, as a result of the changes to the design of an eagle-shaped motorcycle fairing guard made by the party claiming inventorship, the new fairing design had a noticeably different visual appearance. *See id.* at 1006 (Figures 1 and 3). In that case, we agreed with the trial court that the party claiming inventorship was likely not an inventor

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because the new fairing design had "strong similarities" to the drawings provided to that party by the inventor. *Id.* at 1008. In the present case, the changes suggested by Mr. Coffee are no more significant than those made by the party claiming inventorship in *Hoop*. Accordingly, we affirm the bankruptcy court's ruling that Mr. Coffee was not a joint inventor of the '585 patent.

IV

Although the district court agreed with the bankruptcy court that the Mr. Coffee employees were not joint inventors, it disagreed with the bankruptcy court's finding that the AD10 design was not "jointly developed" by Wing Shing, as that term was used in the agreement. The district court therefore concluded that Wing Shing had breached its contractual obligation to negotiate patent rights prior to filing a patent application on the AD10. However, both courts held that the statute of limitations period began to run when Wing Shing breached the contract by filing the '585 patent application without first negotiating patent rights with Sunbeam in July of 1992, and that it expired in 1998, at least two years before this case was filed. Thus, both courts held that Sunbeam could not prevail on its contract-based claim.

Sunbeam now argues, for the first time on appeal, that equitable tolling should suspend the running of the statute of limitations. Its argument, however, runs afoul of the rule that arguments not made in the court whose order is under review are normally considered waived. *See, e.g., Caterpillar Inc. v. Sturman Indus., Inc.*, 387 F.3d 1358, 1368 (Fed.Cir.2004). Sunbeam claims that it preserved the

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equitable tolling argument by raising the issue in its "Reply Post-Trial Memorandum of Law" filed with the bankruptcy court. The argument that Sunbeam points to, however, was not based on equitable tolling, but instead was based on New York state law principles of claim accrual. Sunbeam argued that under New York law, a cause of action against a patentee does not accrue when the patent application is filed, but only when ownership of the patent is in dispute. Therefore, Sunbeam contended, "the earliest date upon which Sunbeam's cause of action accrued was [1995], and the statute of limitations did not expire before Sunbeam filed the instant suit." The bankruptcy court rejected Sunbeam's accrual argument on the ground that the breach of contract claim in this case was not tied to the dispute as to the patent's ownership, but was based on Wing Shing's alleged failure to comply with its agreement to negotiate patent rights with Mr. Coffee before filing a patent application. That promise, the court explained, was breached, if at all, on July 13, 1992, when Mr. Sham filed his patent application. The argument to which Sunbeam directs us is not an equitable tolling argument, and it therefore did not serve to preserve that issue for appeal.

In a portion of the same brief before the bankruptcy court, Sunbeam made a separate argument that Wing Shing's "conduct and misrepresentations" caused Sunbeam to fail to file its action in a timely fashion and that Wing Shing should therefore be estopped from relying on the statute of limitations as a defense to the breach of contract claim. The bankruptcy court, however, noted that Sunbeam conceded that it was aware, or should have been aware, of the '585 patent by March 1995 at the latest, and that Sunbeam

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was therefore not prevented from filing a timely action for breach of contract. Accordingly, the bankruptcy court rejected Sunbeam's "estoppel" argument. Sunbeam's second argument is similar in some respects to the equitable tolling argument that Sunbeam makes on appeal. It differs, however, in that the estoppel doctrine invoked by Sunbeam before the bankruptcy court requires the plaintiff to show that the action was brought within a reasonable time after the facts giving rise to the estoppel ceased to be operational. *See Simcusi v. Saeli*, 377 N.E.2d 713, 717 (N.Y.1978). The bankruptcy court held that Sunbeam failed to meet that burden, and Sunbeam has not challenged that finding on appeal. The estoppel doctrine that Sunbeam raised at trial is sufficiently distinct from the argument that Sunbeam now presses upon us that we cannot agree with Sunbeam that the equitable tolling argument was fairly presented to the trial court. We therefore decline to address the equitable tolling argument that Sunbeam raises for the first time on appeal.² Because we agree with the bankruptcy court and the district court that the statute of limitations period had expired by the time Sunbeam brought this action and because Sunbeam does not argue that it could not reasonably have filed its breach of contract action between the time it learned of the alleged breach (in 1995) and the time the limitations period expired (in 1998), we do not reach the question whether Sunbeam was a joint developer of the AD10 or, if it was, whether Wing Shing breached its obligation to negotiate patent rights prior to filing the '585 patent application.

2. We also decline to address Sunbeam's equitable recoupment claim, which is made for the first time on appeal.

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V

Sunbeam argues that Wing Shing should be equitably estopped from claiming that Sunbeam infringed the '585 patent, and that the bankruptcy court misapplied the legal standards of equitable estoppel in this case. In order for an equitable estoppel defense to bar a patent infringement claim, the alleged infringer must show that: (1) the patentee led the alleged infringer to reasonably infer that the patentee would not enforce its patent; (2) the alleged infringer relied on that conduct; and (3) the patentee suffered material injury as a consequence of that reliance. *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed.Cir.1992).

Sunbeam complains that Wing Shing led it to believe that Wing Shing would not enforce its patent and that it relied on that representation to its prejudice. Sunbeam relies in particular on the March 1995 telefax in which Wing Shing stated the following, in response to Mr. Coffee's direction to transfer tooling for the AD10 to another manufacturer: "[I]t's a[sic] bad news to us. However, you own this tooling and we will have no objection if you decide to do so. We feel very disappointed on [sic] your suggestion. Our long term business relationship will then be hurt badly when it really happens. . . . However, the important point is that we have the product design patent of AD10 and was being filed [sic]. That means, we can sell and we will sell the same product to other customers in the same market."

Sunbeam contends that the March 1995 telefax lulled it into believing that Wing Shing had no objection to Mr. Coffee transferring the production of the AD10 to another manufacturer and that it would not thereafter seek to enforce

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its design patent, but at most would seek to promote the design among Mr. Coffee's competitors. The bankruptcy court, however, concluded that Mr. Coffee was not misled by that telefax into believing that Wing Shing would not sue for patent infringement. The court alluded to evidence, in the form of internal communications among Sunbeam officers noting that Wing Shing owned the design patent for the AD10, that "[i]t likely WILL be an issue if we part ways with them," and that the design of the AD10 might have to be changed "to avoid any patent issues. TDB [sic: to be determined?]." Based on that evidence, the bankruptcy court concluded that "rather than being led to believe that Wing Shing was not going to pursue an infringement claim, Sunbeam was in fact concerned that the Design Patent might potentially become an issue of contention should Sunbeam cease doing business with Wing Shing," and that Sunbeam even considered reworking the AD10 design to avoid a possible infringement claim. Accordingly, the bankruptcy court concluded "that Sunbeam was not misled by Wing Shing's conduct, and that Sunbeam was aware of and had discussed internally the potential danger of a patent infringement action being brought by Wing Shing at some future date."

The district court held that there was sufficient evidence to support the bankruptcy court's finding that "Wing Shing did not engage in conduct sufficiently misleading for Sunbeam to reasonably infer that Wing Shing would not enforce its patent rights." With respect to the internal Mr. Coffee communications, the district court noted that it was "clear from the opinion that the Bankruptcy Court found that Wing Shing's conduct, including the March 1995 fax

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from Wing Shing to Mr. Coffee, was not misleading and, more specifically, that Sunbeam did not rely on and was not misled by any such conduct." Although the evidence on this point is subject to different possible interpretations, we agree with the district court that the bankruptcy court, as fact-finder, did not commit clear error in finding that Sunbeam was not misled into believing Wing Shing would never enforce its patent and that the March 1995 telefax did not lead Sunbeam to believe that Wing Shing would not look to enforce its patent at some point in the future. Because equitable estoppel does not apply if the alleged infringer fails to prove the existence of both misleading conduct and actual reliance on that conduct, we uphold the district court's ruling rejecting Sunbeam's equitable estoppel defense.

VI

Wing Shing appeals from the bankruptcy court's ruling that its failure to provide notice of infringement bars it from recovering damages for infringement prior to the date suit was filed. The Patent Act provides that if a patentee does not mark the patented article, the patentee cannot recover damages unless he shows that the infringer was actually "notified of the infringement and continued to infringe thereafter." See 35 U.S.C. § 287(a); see also *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1470 (Fed.Cir.1997). The purpose of the notice requirement is to ensure that the accused infringer is aware of the patent during the period in which liability arises and damages accrue. *Id.* Wing Shing neither marked its coffeemakers with the patent number nor provided adequate notice to Sunbeam that it was infringing the '585 patent. Wing Shing argues that it gave

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Sunbeam notice of infringement at a trade show in 1996 when Mr. Sham allegedly told a Sunbeam employee that "we have the product design patent and [Sunbeam] should not buy from anybody else, but should buy from us." The bankruptcy court rejected Mr. Sham's uncorroborated testimony about that alleged communication on credibility grounds. As the district court explained, the bankruptcy court "was in the best position to judge the credibility of witnesses and determine whether testimony was credible." Like the district court, we decline to upset the trial court's credibility finding. We also agree with the district court that the bankruptcy court "did not commit clear error in determining that Wing Shing failed to provide constructive or actual notice to Sunbeam and, therefore, is precluded from the recovery of pre-suit claims." Because we hold that the notice issue disposes of Wing Shing's claim for pre-suit damages, we follow the same course as the district court and decline to address whether the bankruptcy court erred in holding that the doctrine of laches also bars Wing Shing from recovering pre-suit damages.

VII

Finally, Wing Shing complains that the bankruptcy court erred in allowing Sunbeam to deduct certain fixed costs, allocated to the sales of the AD10 coffeemakers, when calculating Sunbeam's profits on the infringing units. The amount of damages is a finding of fact reviewed under the clearly erroneous rule. *Minn. Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1577 (Fed.Cir.1992). However, certain subsidiary decisions, "such as choosing between reasonable alternative accounting

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methods for determining profit margin" are discretionary with the trial court and are reviewed under the abuse of discretion standard. *Id.*; *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1165 n. 2 (Fed.Cir.1991).

In this case, the bankruptcy court found that some fixed costs were properly attributable to the infringing coffeemakers and other fixed costs were not. In addition, the court refused to deduct those fixed costs that the court concluded Sunbeam had failed to show were related to the production of the infringing products. The court found that the fixed costs that were deductible were "directly related to the AD Coffeemakers, and that the AD Coffeemakers could not have been brought to market without them." While Wing Shing argues that the evidence did not justify the court's conclusion that those costs were related to the cost of selling the infringing units, Sunbeam introduced some documentary and testimonial evidence about the various categories of expenses, and the bankruptcy court analyzed the categories in question with care.

Although the evidence available to the court on this issue was somewhat limited, we nonetheless agree with the district court that there was sufficient evidence for the bankruptcy court to make a reasonable determination of the costs associated with the sale of the AD10 units. The court's ruling on that issue was thus not clearly erroneous. We also agree with the district court that the bankruptcy court made "reasonable determinations as to what categories and portions of items should be included and what costs should be deducted in calculating Sunbeam's profit." Thus, the bankruptcy court did not abuse its discretion by employing a

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methodology that included certain cost items that Wing Shing argues should not have been deducted in calculating Sunbeam's profits on the infringing products.

Each party shall bear its own costs for this appeal.

**APPENDIX B — MEMORANDUM OPINION AND
ORDER OF THE UNITED STATES DISTRICT
COURT FOR THE SOUTHERN DISTRICT OF NEW
YORK DATED JULY 29, 2004**

**UNITED STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF NEW YORK**

03 Civ. 7190(RJH) – lead case
03 Civ. 7923(RJH)
04 Civ. 3347(RJH)

SUNBEAM PRODUCTS, INC.,

Appellant-Cross-Appellee,

-against-

WING SHING PRODUCTS (BVI) LTD.,

Appellee-Cross-Appellant.

MEMORANDUM OPINION AND ORDER

This matter comes before the Court as an appeal from a memorandum decision of the Bankruptcy Court dismissing the claims of Appellant-Cross-Appellee Sunbeam Products, Inc. ("Sunbeam") and permanently enjoining Sunbeam from infringing U.S. Patent No. D348, 585 ("Patent"). Appellee-Cross-Appellant Wing Shing Products (BVI) Ltd. ("Wing Shing") opposes cross-appeals to reverse certain parts of the Bankruptcy Court decision, including the Bankruptcy Court's

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calculation of damages.¹ For the reasons stated herein, the Bankruptcy Court's memorandum decision is affirmed in part and reversed in part.

FACTS

This litigation revolves around a design patent for a coffeemaker. The following facts are based on the record designated by the parties and the findings of the Bankruptcy Court after trial, see *In re AI Realty Marketing of N.Y., Inc.*, 293 B.R. 586 (Bankr.S.D.N.Y.2003).

In June 1991, John Sham, the president of Wing Shing, contacted Mr. Coffee, Inc. ("Mr. Coffee") to inquire whether Mr. Coffee might be interested in contracting with Wing Shing to manufacture coffeemakers.² (See *In re AI Realty Marketing of N.Y., Inc.*, 293 B.R. at 595 (hereinafter "*Op.*"); D29.)³ Sham stated that Wing Shing had been in business

1. The Bankruptcy Court issued two orders regarding the calculation of damages. The first order, a memorandum opinion, *In re AI Realty Marketing of N.Y., Inc.*, 293 B.R. 586 (Bankr.S.D.N.Y.2003), forms the original basis for this appeal, case numbers 03 Civ. 7190 and 03 Civ. 7923. The second order was a final judgment issued on March 11, 2004. The appeal from the second order, case number 04 Civ. 3347, has been consolidated with this matter by order of this Court dated May 18, 2004.

2. Mr. Coffee was later acquired by Sunbeam, the appellant-cross-appellee in the present matter.

3. References to Sunbeam's Designation of Record on Appeal are cited as "D"; references to Wing Shing's Counter-Designations of Record on Appeal are cited as "CD".

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for 28 years and was now one of the largest Hong Kong manufacturers of household appliances. (See D29.) Sham provided Jeffrey Blackwell, then Vice President of Operations at Mr. Coffee, with sketches of a proposed coffeemaker design. (See Op. at 595.)

Mr. Coffee produced and marketed exclusively coffeemakers. (See D12, Ex. 10.) At the time Sham contacted Mr. Coffee, Mr. Coffee was interested in marketing a series of European-styled coffeemakers. (See D82 at 100:19-102:16.) European-styled coffeemakers had softer edges and were more circular, less angular than other coffeemakers. (See D82 at 102:7-102:16.)

Through a series of correspondences beginning in August 1991 and lasting through early 1992, Mr. Coffee suggested a number of changes to the coffeemaker design proposed by Wing Shing. (See Op. at 595-96; D34; D36; D39; D40; D44; D47; D49; D69.) The changes included (1) eliminating grooves on the brew basket so that the basket was smooth, (2) eliminating ridges on the reservoir cover so that the cover was smooth, (3) moving the power switch from the base of the coffeemaker to the left side, (4) making the brew basket open from left to right instead of right to left, (5) moving the water level gauge from the right side of the coffeemaker to the left side, (6) inserting a metal plate on the bottom of the coffeemaker, and (7) adding a shroud to the power switch. (See Op. at 595-96; D34; D35; D37; D38; D39.)

On November 8, 1991, while the parties were still discussing changes to the proposed coffeemaker design, Mr. Coffee provided Wing Shing with a draft supply

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agreement. (*See Op. at 596; D12, Ex. 6.*) The parties proceeded to negotiate the terms of the contract as the coffeemaker design was being finalized. (*See Op. at 596.*) Mr. Coffee agreed to allow Wing Shing to use certain Mr. Coffee patents for coffeemakers Wing Shing manufactured for Mr. Coffee. (*See D12, Ex. 10; D81 at 37:7-37:16.*)

In early July 1992, Wing Shing and Mr. Coffee executed an agreement ("Agreement") by which Wing Shing would manufacture a coffeemaker to be sold by Mr. Coffee, namely the coffeemaker ("AD10") originally proposed by Wing Shing and incorporating certain changes suggested by Mr. Coffee. (*See Op. at 596; D55.*) The term of the Agreement began on January 7, 1992, and extended through December 31, 1994. (*See Op. at 596; D55 (¶ 4).*) The Agreement granted Mr. Coffee an exclusive license to sell the AD10 in North America. (*See Op. at 596.*) The Agreement stated that "[a]ny and all existing patent rights for the [coffeemaker] units or any of its component parts shall be the sole and exclusive property and/or responsibility of Mr. Coffee. In the event that Mr. Coffee and [Wing Shing] jointly develop a patentable item both parties agree to negotiate patent rights prior to applying for the patent." (*See Op. at 596; D55 (¶ 16).*) The Agreement also stated that the "tooling [for the coffeemaker], and drawings related thereto, is property of Mr. Coffee." (*See Op. at 596; D55 (¶ 9).*) The Agreement further stated that disputes regarding the Agreement would be "governed by the laws of the State of Ohio." (*D55 (¶ 23(f)).*)

Shortly after executing the Agreement and without informing Mr. Coffee, Sham filed a patent application for

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the AD10 design. (See Op. at 596; D70; D71; D81 at 37:2-37:6, 127:11-129:3.) Sham's application listed himself as the sole inventor.⁴ (See Op. at 596; D71; D81 at 127:7-127:10.) The Patent issued in July 1994, though Wing Shing neither informed Mr. Coffee nor included notice of the Patent on the AD10 or its packaging. (See Op. at 596; D70; D81 at 37:2-37:6.)

In November 1994, Mr. Coffee informed Wing Shing that Simatelex Manufactory Co., Ltd. ("Simatelex") would be manufacturing some AD10 coffeemakers for Mr. Coffee. (See Op. at 596; D58; D81 at 44:14-44:22.) Wing Shing did not object at that time. (See Op. at 596.) However, in a March 9, 1995, fax to Dan Kubis, then an employee of Mr. Coffee, Wing Shing stated that, although Mr. Coffee owned the tooling, "we [Wing Shing] have the product design patent of AD10 and was being filed. That means, we can sell and we will sell the same product to other customers in the same market. It will definitely create business conflicts between us." (See Op. at 596-97; D59.)

In January 1996, Sham attended a houseware show in Chicago, Illinois, and noticed that the AD10 on display at Mr. Coffee's booth had not been manufactured by Wing Shing. (See Op. at 597.) Sham claims that he discussed this with Kubis at the show. (See Op. at 597.)

Around the time of the houseware show, Kubis sent a letter to Wing Shing complaining about companies other than

4. Sham assigned the Patent to Wing Shing on June 10, 1996. (See Op. at 597.)

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Sunbeam selling AD10 coffeemakers manufactured by Wing Shing. (See Op. at 597.) The letter indicated that Mr. Coffee was considering production of a different model coffeemaker, the AD12, and offered to allow Wing Shing to manufacture the AD12 as a "reward" should AD10 business decrease. (See Op. at 597.) Wing Shing responded that it would provide a price quote for manufacturing the AD12 and that, at Mr. Coffee's request, Wing Shing would cease manufacturing the AD10 for other companies. (See Op. at 597.)

In the fall of 1998, Sunbeam, which had by then acquired Mr. Coffee, considered shifting manufacturing of the AD10 away from Wing Shing to Simatelex. (See Op. at 597; CD141 at 26:14-27:8.) In an email exchange on October 1, 1998, Sunbeam employee David Buck concluded that Wing Shing "owns the tooling and design [for the AD10], even though 4 or 5 years ago we [Mr. Coffee] made the decision to tool the same design at Simatelex. They [Wing Shing] either don't realize this fact . . . or have kept quiet about it because our business was increasing with them. It likely WILL be an issue if we part ways". (See Op. at 597; CD113.) Armed with this information, Sunbeam employee Paul Warfel stated, in another email exchange, that the design of the AD10 "may change slightly to avoid patent issues. TBD."⁵ (See Op. at 597; CD114.)

5. Sunbeam claims that "TBD" stands for "to be determined". (See Sunbeam Br. at 17-18.) Sunbeam allegedly conducted a patent search relating to the AD10 in 1998; however, Sunbeam's search did not uncover any patents and outside counsel was never employed to carry out further searches. (See Op. at 597.) The Bankruptcy Court noted that "Sunbeam has been unable to provide corroborating evidence that the search was conducted." (Op. at 597.)

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In 2000, Mr. Coffee executed a formal supply agreement with Simatelex. (*See* CD120; CD121.) By the end of 2000, Sunbeam's volume of purchases from Wing Shing decreased by 50 percent. (*See* Op. at 597.)

On February 9, 2001, Wing Shing initiated a patent infringement action against Simatelex.⁶ (*See* Op. at 597-98.) On February 23, 2001, Sunbeam commenced an Adversary Proceeding against Wing Shing in Bankruptcy Court. (*See* Op. at 598.) The Bankruptcy Court held a trial on this matter and issued its ruling on June 3, 2003.

The Bankruptcy Court ruled that Wing Shing was not equitably estopped from asserting an infringement claim against Sunbeam because Wing Shing did not mislead Sunbeam into thinking that Wing Shing would not enforce its patent. (*See* Op. at 599-600.) However, the Bankruptcy Court determined that Wing Shing failed to provide notice of the infringement and that the doctrine of laches applied, thereby limiting Wing Shing's damages to the period after suit against Simatelex was initiated. (*See* Op. at 603.)

With respect to the contractual issues in dispute, the Bankruptcy Court found that the parties' use of the term "existing patent rights" did not include the right to apply for a patent and, thus, the assignment of "[a]ny and all existing patent rights" to Mr. Coffee did not include the idea or unfiled application for the Patent. (*See* Op. at 607.) The Bankruptcy Court further found that, according to the terms of the

6. That action is also before this Court and is presently stayed pending this decision.

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contract, Sunbeam did not have an exclusive license to use the Patent such that Wing Shing's infringement claim was barred. (*See Op. at 610.*) The Bankruptcy Court did hold that, assuming that the Patent was jointly developed and that Wing Shing was contractually obligated to negotiate the rights for the Patent, Wing Shing breached this obligation by filing the patent application. (*See Op. at 607-08.*) However, the statute of limitations had run on Sunbeam's possible claim for this breach of contract. (*See Op. at 608.*)

Finally, the Bankruptcy Court ruled that Sunbeam was not a joint inventor of the Patent. (*See Op. at 614.*) The Bankruptcy Court concluded that Sunbeam's contributions to the Patent were all either well-known concepts in the design of coffeemakers or functional changes. (*See id.*) The Bankruptcy Court also concluded that, even if the changes were all ornamental, the contribution to the overall appearance was not significant enough to achieve co-inventor status. (*See id.*)

Turning to the issue of damages, the Court reasoned that, since Sunbeam could have designed around the Patent at a cost of between \$32,000 and \$173,000, a reasonable royalty would have to fall in between those two sums. (*See Op. at 617.*) The Bankruptcy Court also reasoned that a prime rate of interest should apply to the damages. (*See id.*) The Bankruptcy Court declined to award treble damages or attorneys fees to Wing Shing; however, the Bankruptcy Court reasoned that damages in an amount equal to Sunbeam's profits from the sale of infringing coffeemakers produced by Simatelex could be applicable. (*See Op. at 618-19.*) The Bankruptcy Court ultimately decided that Wing Shing should

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be awarded the greater of its lost royalties or Sunbeam's total profits and directed the parties to submit further evidence to determine the exact damages. (See Op. at 620.) On March 11, 2004, the Bankruptcy Court issued a final judgment against Sunbeam in the amount of \$2,304,403. (See D96.)

Both Sunbeam and Wing Shing have appealed from the Bankruptcy Court ruling and final judgment. Sunbeam seeks review of the following issues: (i) whether the Bankruptcy Court erred in finding that Mr. Coffee employees are not co-inventors of the Patent; (ii) whether the Bankruptcy Court erred in finding that Wing Shing's infringement claim is not barred by the doctrine of equitable estoppel; (iii) whether the Bankruptcy Court erred in interpreting the terms of the Agreement; and (iv) whether the Bankruptcy Court erred in not finding that the Patent is unenforceable due to inequitable conduct. (See Sunbeam Br. at 4.) Wing Shing, for its part, seeks review of the following issues: (i) whether the Bankruptcy Court erred in holding that Wing Shing failed to provide notice of infringement and that the doctrine of laches applied to Wing Shing's claim; and (ii) whether the Bankruptcy Court erred in calculating damages. (See Wing Shing Br. at 1-2.)

DISCUSSION

A district court reviews the findings of fact of a bankruptcy court under a "clearly erroneous" standard, while conclusions of law are reviewed *de novo*. See *In re Ionosphere Clubs, Inc.*, 922 F.2d 984, 988 (2d Cir.1990). When there are mixed questions of law and fact, district courts should review legal conclusions *de novo* while giving deference to

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the bankruptcy court's factual determinations unless they are clearly erroneous. *See Underwriters at Lloyd's of London v. 150 Nassau St. Billiards, Inc.*, No. 03 Civ. 1420, 2003 WL 22999464, at *4 (S.D.N.Y. Dec. 22, 2003).

I. Joint Inventorship of the Patent

The first issue for the Court is whether Sunbeam is a joint inventor of the Patent. The Bankruptcy Court concluded that Sunbeam is not a joint inventor. (*See Op.* at 614.) Sunbeam argues that the Bankruptcy Court committed four errors in arriving at that conclusion. First, Sunbeam argues that the Bankruptcy Court should have found Sunbeam to be a joint inventor because Wing Shing did not seek to exclude from the Patent the alterations suggested by Mr. Coffee. (*See Br. of Appellant Sunbeam* at 20-21 (hereinafter "Sunbeam Br.")). Second, Sunbeam argues that the Bankruptcy Court did not apply the proper test for evaluating Mr. Coffee's contributions, that the Bankruptcy Court should have determined whether the overall appearance of the design was dictated by functional considerations. (*See id.* at 21-24.) Third, Sunbeam argues that the Bankruptcy Court should have found that Mr. Coffee's suggested elimination of ridges and grooves, which were undisputedly ornamental, made Sunbeam a co-inventor. (*See id.* at 24-25.) Fourth, Sunbeam argues that the changes to the power switch, brew basket, water level gauge, and coffeemaker bottom should not have been deemed functional changes. (*See id.* at 26-30.)

The Court begins by addressing Sunbeam's second argument—the test for evaluating Mr. Coffee's contributions—because resolution of that argument is in fact

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dispositive as to all four arguments. Design patents may be obtained by “[w]hoever invents any new, original and ornamental design for an article of manufacture.” 35 U.S.C. § 171 (1994). An inventor under the patent laws is the person or persons who conceived the patented invention, and their legal status as inventor does not change simply because the inventor uses the services, ideas, and aid of others in the process of perfecting their invention. *See Hoop v. Hoop*, 279 F.3d 1004, 1007 (Fed.Cir.2002). “One may not qualify as a joint inventor . . . by merely assisting the actual inventor *after conception* of the claimed invention.” *Id.* (emphasis in original) (quotations omitted).

It is undisputed that Wing Shing originated a coffeemaker design and that this design eventually became the basis for the Patent. The question is whether Sunbeam’s input along the way—the changes from the original proposal to the final patented design—caused enough of an alteration from the original design to raise Sunbeam to the level of co-inventor.

To qualify as a joint inventor, the differences between the original design and the improved design must be significant—the improved design must contain an inventive concept. *See id.* “The ultimate test for design-patent inventorship, like the test for anticipation and infringement, is whether the [improved] invention is ‘substantially similar’ to the [original].” *Id.* This essentially means that, if the improved design could not be found to infringe the original design, the person responsible for the alterations is a joint inventor because their improvements were significant.

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However, “[a] design patent only protects the novel, ornamental features of the patented design.” *OddzOn*, 122 F.3d at 1405. Thus, “[w]here a design contains both functional and non-functional elements, the scope of the claim must be construed in order to identify the non-functional aspects of the design as shown in the patent.”⁷ *Id.* Then, to evaluate inventorship (or infringement), the original claimed design, as a whole—as encompassed by the ornamental features but not the functional features—is compared against the improved or allegedly infringing design, also as a whole. See *Contessa Food Prods., Inc. v. Conagra, Inc.*, 282 F.3d 1370, 1378 (Fed.Cir.2002) (“Our precedent makes clear that all of the ornamental features illustrated in the figures must be considered in evaluating design patent infringement”); *Unidynamics Corp. v. Automatic Prods. Int’l, Ltd.*, 157 F.3d 1311, 1323 (Fed.Cir.1998) (“In determining this overall similarity of design, the ordinary observer must be deceived by the features common to the claimed and accused designs that are ornamental, not functional”); see, e.g., *OddzOn*, 122 F.3d at 1405 (“We agree with the district court’s claim construction, which properly limits the scope of the patent to its overall ornamental visual impression, rather than to the broader general design concept”).

7. The fact that there may be “other ways to achieve the function provided by the feature” (Sunbeam Br. at 26) is not dispositive as to whether a feature is functional or ornamental. See *Berry Sterling Corp. v. Pescor Plastics, Inc.*, 122 F.3d 1452, 1456 (Fed.Cir.1997). For example, a court may also consider if the feature was the best way to achieve the function, see *id.*, thus making the feature functional even though there might be other ways to achieve that function.

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The Bankruptcy Court's decision regarding joint inventorship contains mixed questions of law and fact. A determination of inventorship, as a general matter, is a question of law to be reviewed *de novo*. See *Sewall v. Walters*, 21 F.3d 411, 415 (Fed.Cir.1994). Yet, whether the improved design, as a whole, is substantially similar to the original, as a whole, is a question of fact, see *Hoop*, 279 F.3d at 1007 (citing *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1124 (Fed.Cir.1993)); cf. *OddzOn Prods., Inc. v. Just Toys, Inc.*, 122 F.3d 1396, 1405 (Fed.Cir.1997) ("The comparison step of the infringement analysis requires the fact-finder to determine whether the patented design as a whole is substantially similar in appearance to the accused design"), and will be reviewed for clear error.

The Bankruptcy Court found that, considering "the overall appearance of the Design Patent, . . . Mr. Coffee's contribution to the Design Patent was not significant enough in quality when measured against the dimension of the full invention so as to achieve co-inventor status." (Op. at 613.) Sunbeam argues that this finding "misses the point" because, before considering the overall appearance of the design, the Bankruptcy Court examined the various changes individually and made findings as to whether each change was functional or ornamental. (See Sunbeam Br. at 24.) Sunbeam also argues that "[t]here can be no doubt that Mr. Coffee is a co-inventor" because Wing Shing's own witnesses testified that Sunbeam's contributions "changed the look and overall appearance of the coffeemaker." (*Id.* at 22-24.)

This Court disagrees. The Bankruptcy Court's eventual finding that the patented design was substantially similar to

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the original is not compromised by the Bankruptcy Court's initial consideration of the changes individually. Whatever the initial findings, the Bankruptcy Court ultimately applied the correct test. The Bankruptcy Court evaluated the original design against the patented design—while assuming all the changes were ornamental—and decided, as the fact-finder, that the two designs appeared substantially similar. This conclusion is not erroneous simply because there is testimony to support a contrary position. The Bankruptcy Court, as fact-finder, was in a position to view the two designs, evaluate the testimony, and make its own determination as to substantial similarity. Reviewing the two designs, this Court does not conclude that the Bankruptcy Court's finding was clear error.⁸ Thus, the Court affirms the Bankruptcy Court's conclusion that Sunbeam is not a joint inventor of the Patent.⁹

8. Thus, Sunbeam is not a joint inventor even if, as Sunbeam argues, (a) all the suggestions were ornamental and (b) Wing Shing did not seek to exclude the changes from the Patent. Furthermore, though not necessary for its holding, the Court notes that whether a feature is functional or ornamental is a question of fact. *See Hupp v. Siroflex of Am., Inc.*, 122 F.3d 1456, 1460 (Fed.Cir.1997). The Court does not find that the Bankruptcy Court committed clear error in concluding that the changes to the power switch, brew basket, water level gauge, and coffeemaker bottom were functional, rather than ornamental, even though there might have been other ways to achieve those functions. *See, e.g., Berry Sterling*, 122 F.3d at 1456.

9. Since the Court declines to hold that Sunbeam is a joint inventor of the Patent, Sunbeam's argument that it is immune from patent infringement claims as a co-inventor, and thus co-owner of the Patent (Sunbeam Br. at 30-31), is rendered moot.

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II. Contractual Issues

A. *Assignment of Existing Patent Rights*

Having determined that Sunbeam is not a joint inventor of the Patent, the Court turns to examine whether Sunbeam can claim ownership of the Patent according to the terms of the Agreement. Applying Ohio law, the Bankruptcy Court ruled that "[t]he Agreement is clear and unambiguous on its face" and it "does not provide for an assignment of the Design Patent to Sunbeam."¹⁰ (Op. at 604.) Noting that the Agreement calls for "[a]ny and all existing patent rights for the units [to] be the sole and exclusive property . . . of Mr. Coffee" (D55 (¶ 16)), the Bankruptcy Court reasoned that the ordinary meaning of the term "existing patent rights" does not include the right to apply for a patent in the future. See Op. at 605 (citing *Gasser Chair Co. v. Infanti Chair Mfg. Corp.*, 60 F.3d 770, 777 (Fed.Cir.1995).) The Bankruptcy Court reasoned that the Agreement, read in its entirety, indicates that the parties intended that term to exclude the right to apply for a patent in the future. (See Op. at 605-607.)

Citing *Burroughs Wellcome Co. v. Barr Labs. Inc.*, 40 F.3d 1223 (Fed.Cir.1994), Sunbeam argues that the term "existing patent rights" does include the right to apply for a patent in the future and that this right attaches at the moment an invention is conceived. (See Sunbeam Br. at 37.) As the design for the AD10 was completed by the spring of 1992,

10. Sunbeam does not dispute the propriety of the application of Ohio law.

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Mr. Coffee's patent rights came into existence then—before the effective date of the Agreement, June 22, 1992.¹¹ (*See id.* at 38.) Thus, argues Sunbeam, Mr. Coffee is the exclusive owner of the Patent under the Agreement. (*See id.* at 38.)

When contract terms are unambiguous, contract interpretation is a matter of law to be reviewed *de novo* on appeal to district court. *See In re Chateaugay Corp.*, 156 B.R. 391, 404 (S.D.N.Y.1993); *accord Jessica Howard Ltd. v. Norfolk Southern R.R. Co.*, 316 F.3d 165, 168 (2d Cir.2003). Under Ohio law, a court must interpret a contract so as to carry out the intent of the parties. *See Wauseon Plaza Ltd. v. Wauseon Hardware Co.*, 807 N.E.2d 953, 957, 156 Ohio App.3d 575, 582 (2004). The intent of the parties to a contract is presumed to reside in the language they chose to employ in the agreement. *See id.* at 958, 156 Ohio App.3d at 582, 807 N.E.2d 953. Courts have an obligation to give plain language its ordinary meaning and to refrain from revising the parties' contract. *See id.*

The Court finds that Sunbeam was not assigned ownership rights to the Patent. While *Burroughs Wellcome* shows that "patent rights" *could* include the right to apply for future patents, this Court cannot conclude that such meaning is the ordinary meaning of the term as intended by the parties. The fact that Sunbeam has adopted a conflicting interpretation of the Agreement does not create ambiguity, or a basis for unreasonable interpretation of the language or the original intent of the parties, where no such ambiguity

11. Sunbeam also argues that "existing patent rights" should be determined from July 13, 1992, not from the June 22 effective date, because the Agreement was fully executed on July 13.

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should reasonably be found. See *Ohio Water Dev. Auth. v. W. Reserve Water Dist.*, 776 N.E.2d 530, 535, 149 Ohio App.3d 155, 161 (2002). The Court agrees with the Bankruptcy Court's reasoning on this point:

"At the very least, the proposition that the assignment of all 'existing patent rights' captures the assignment of a mere idea or unfiled patent application is unsupported, absent some specific indication in the Agreement that such an assignment was intended. . . . On its face, the Agreement calls for the assignment of patents and possibly patent applications, but it does not explicitly assign rights to future patents or patent applications." (Op. at 605, 606.)

Sunbeam's argument calls for a strained reading of the Agreement, which was written by two sophisticated companies not unfamiliar with contracts or patents. Reviewing the Agreement in its entirety, the only way to give ordinary meaning to the word "existing" is to exclude rights to apply for possible patents in the future. Such rights are inchoate in plain language, rather than existing. The "existing patent rights" sentence (D55 (¶ 16)) is meant to protect Mr. Coffee from surrendering patent rights that are actual and established—important protection considering that Mr. Coffee agreed to allow Wing Shing to use some of Mr. Coffee's existing patents in manufacturing the AD10. (See D12, Ex. 10; D81 at 37:7-37:16 (discussing Mr. Coffee's permission to use the "Pause and Serve" patent).) Indeed, it is the next sentence of the Agreement that contemplates future patents: "In the event that Mr. Coffee and Wing Shing jointly

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develop a patentable item. . . ." (D55 (¶ 16).) Thus, the Court concludes that the ordinary meaning of "existing patent rights"—the meaning that the parties intended—does not include rights to apply for possible patents in the future, which rights are explicitly addressed in a separate sentence within the same paragraph of the Agreement.¹²

B. Obligation to Negotiate

That conclusion brings the Court to the Agreement's next sentence, which addresses possible patents issued after the term of the Agreement began. That sentence states that, "[i]n the event that Mr. Coffee and [Wing Shing] jointly develop a patentable item both parties agree to negotiate patent rights prior to applying for the patent." (D55 (¶ 16).) The Bankruptcy Court found that Wing Shing was not in violation

12. Even assuming "existing patent rights" included the right to apply for future patents, that right as it pertains to the Patent would not have existed at the time from which the parties agreed to be bound. "[W]here the parties themselves agree that a contract between them should be given effect as of a specified date, . . . there is no sound reason why that agreement should not be given effect." 2 Richard A. Lord, *Williston on Contracts* § 6:60 (4th ed. West 2004). Since the parties agreed to be bound by the Agreement starting January 7, 1992, *see* D55 (¶ 4) (The term of this Agreement (the "Term") shall begin on January 7, 1992 and shall extend through December 31, 1994), it is from that date that "existing patent rights" would be considered. As the design for the AD10 was completed by the spring of 1992, *see* Sunbeam Br. at 38, Mr. Coffee's rights to the Patent would have come into existence after the term of the Agreement began on January 7, 1992. Thus, even Sunbeam's strained interpretation of the Agreement would not provide Sunbeam ownership rights.

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of that agreement because (a) the statute of limitations on any claim that Wing Shing had to negotiate patent rights on the Patent expired prior to the filing of the Bankruptcy Court proceeding and (b) Mr. Coffee is not a co-inventor of the Patent, thus defeating Sunbeam's claim that the Patent was "jointly developed" by Mr. Coffee and Wing Shing. (See Op. at 607.)

Sunbeam argues that the Bankruptcy Court incorrectly found that the statute of limitations for asserting a breach began to run when Wing Shing filed the patent application rather than when Wing Shing allegedly refused to negotiate rights to the Patent. (See Sunbeam Br. at 38-39.) Sunbeam argues that refusal occurred, at earliest, when Wing Shing sent the March 9, 1995, fax stating that Wing Shing had a design patent. (See *id.* at 39.) Sunbeam also argues that Wing Shing should be estopped from availing itself of the statute of limitations defense because Wing Shing's alleged misrepresentations caused Mr. Coffee not to bring suit. (See *id.*)

As resolution of these arguments involves interpretation of the Agreement, the Court reviews the Bankruptcy Court decision on this issue *de novo*. See *In re Chateaugay Corp.*, 156 B.R. at 404; accord *Jessica Howard Ltd.*, 316 F.3d at 168. Again, the Court must give the Agreement's plain language its ordinary meaning as intended by the parties. See *Wauseon Plaza*, 807 N.E.2d at 957- 58, 156 Ohio App.3d at 582.

As a preliminary matter, the Court notes that its earlier conclusion that Mr. Coffee is not a joint inventor of the Patent

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does not preclude a finding that Mr. Coffee “jointly developed” the Patent with Wing Shing. Whether a party has patent rights as a co-inventor is a distinct issue from whether a party who is not a co-inventor has acquired a right to share patent rights through an agreement with the inventor. “Joint inventor” is a legal term of art not necessarily equivalent to “joint developer,” as understood in plain language. A party that makes contributions to an invention could be considered a joint developer though the contributions do not rise to the level of making that party a joint inventor. Had Mr. Coffee and Wing Shing intended to limit the obligation “to negotiate patent rights” to situations where both were “joint inventors,” they could have drafted the contract accordingly. Since the Agreement does not limit the obligation in that way, the Court must consider whether Mr. Coffee, though not a joint inventor, jointly developed the Patent.

From 1991, when Wing Shing first gave sketches of a coffeemaker design to Mr. Coffee, through spring of 1992, when the AD10 design was completed, the parties refined the AD10 design. There is no dispute that Mr. Coffee made contributions to the development of the AD10 during this time. As discussed above, the Agreement protects Mr. Coffee’s rights to existing patents it owned before January 7, 1992, that were applied to the AD10. The “jointly developed” sentence is meant to cover possible patents for the AD10 that did not exist before January 7, 1992 (the date on which the contract term began), and that were developed thereafter as the parties perfected the AD10. The Patent fits squarely within that coverage. The Court finds that Mr. Coffee did jointly develop the Patent with Wing Shing, placing upon Wing Shing the obligation “to negotiate patent

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rights prior to applying for the patent.” (D55 (¶ 16).) Thus, the Court reverses the Bankruptcy Court decision to the extent it holds that, since “Sunbeam was not a joint inventor of the Design Patent, Wing Shing did not have an obligation to negotiate the rights to such Design Patent.” (Op. at 608.)

However, the Court agrees with the Bankruptcy Court’s alternate conclusion that the statute of limitations on any obligation that Wing Shing had to negotiate rights to the Patent started to run on July 13, 1992, *see id.*, the later of the filing of the application by Sham (July 13, 1992) or the effective date of the Agreement (June 22, 1992), thereby barring Sunbeam’s recovery for a breach of contract claim.

Breach of contract claims are governed by a six-year statute of limitations. *See* N.Y. C.P.L.R. § 213 (McKinney’s 2003). A cause of action for breach of contract accrues and the statute of limitations begins to run when the contract is breached. *See Lamendola v. Mossa*, 736 N.Y.S.2d 836, 837-38, 190 Misc.2d 147, 149 (N.Y.App.Term.2001). Knowledge of the breach is not necessary to start the statute of limitations running. *See id.*

The Agreement clearly states that a party must negotiate patent rights *before* filing a patent application. Wing Shing filed the patent application without negotiating with Mr. Coffee. Therein lies the breach. Sunbeam’s argument that the breach occurred in 1995 when Wing Shing allegedly refused to negotiate is untenable. In order to find that the breach occurred in 1995, the Court would have to posit that, had Wing Shing negotiated patent rights with Mr. Coffee in 1995, Wing Shing would not have been in breach of its

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contractual obligation. Yet, negotiation in 1995—almost three years after the application was filed—would not cure Wing Shing's failure to negotiate *before* filing the patent application. In a scenario where negotiations occurred in 1995, Sunbeam would still have a cause of action for breach of contract, which arose on July 13, 1992, when the application was filed.¹³

Given that the breach occurred on July 13, 1992, Sunbeam had until July 13, 1998, to bring a breach of contract claim against Wing Shing for filing the patent application in violation of the Agreement. Sunbeam initiated this action in February 2001, by which time the statute of limitations had run. Sunbeam is thus barred from asserting a breach of contract claim.

The Court declines to hold that Wing Shing is estopped from asserting a statute of limitations defense. "It is the rule that a defendant may be estopped to plead the Statute of Limitations where plaintiff was induced by fraud, misrepresentations or deception to refrain from filing a timely action." *Simcuski v. Saeli*, 44 N.Y.2d 442, 449-50, 406 N.Y.S.2d 259, 377 N.E.2d 713, 716 (N.Y.1978); *see, e.g., Eagle Comtronics, Inc. v. Pico Prods., Inc.*, 256 A.D.2d 1202, 1203-04, 682 N.Y.S.2d 505, 507 (N.Y.App.Div.1998) (citing

13. *Frigi-Griffin, Inc. v. Leeds*, 52 A.D.2d 805, 383 N.Y.S.2d 339 (N.Y.App.Div.1976), is inapposite. In that case, the court found that "[t]he cause of action against [defendant] did not accrue when [defendant] filed his patent application in 1968, since that filing was not wrongful." *Id.* at 806, 383 N.Y.S.2d at 341. In the instant case, Sham's filing was in fact wrongful since, in violation of the Agreement, no negotiation had yet taken place.

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Simcusi v. Saeli). However, “[i]f the conduct relied on (fraud, misrepresentation or other deception) has ceased to be operational within the otherwise applicable period of limitations (or perhaps within a reasonable time prior to the expiration of such period), many courts have denied application of the doctrine on the ground that the period during which the plaintiff was justifiably lulled into inactivity had expired prior to the termination of the statutory period, and that the plaintiff had thereafter had sufficient time to commence his action prior to the expiration of the period of limitations.” *Simcusi*, 44 N.Y.2d at 450-51, 406 N.Y.S.2d 259, 377 N.E.2d at 717.

According to Sunbeam’s own argument, Mr. Coffee learned about the breach, at latest, when Mr. Coffee received Wing Shing’s March 1995 fax, in which “Wing Shing refused to negotiate rights to the [Patent].” (Sunbeam Br. at 39.) At that time, Mr. Coffee had over three years remaining before the statute of limitations foreclosed a breach of contract claim. Yet, Mr. Coffee appears to have made a calculated decision not to enforce its claim during that time. Indeed, it is not certain that Sunbeam would have ever brought a breach of contract claim against Wing Shing had Wing Shing not initiated an infringement action against Simatelex first. For these reasons, the Court holds that, although Wing Shing breached the Agreement, Sunbeam’s claim for breach of contract is barred by the statute of limitations and Wing Shing is not estopped from asserting a statute of limitations defense.

*Appendix B**C. Exclusive License*

A separate issue under the Agreement is whether Sunbeam has a permanent exclusive license to market and sell the AD10 such that Sunbeam implicitly has a license to use the Patent. The Bankruptcy Court ruled "that the Agreement does not . . . grant Sunbeam a permanent license for the Design Patent." (Op. at 604.) The Bankruptcy Court reasoned that, while an exhibit to the Agreement uses the term "indefinite exclusive rights," the plain language of the actual Agreement, which itself was for a finite period, does not grant Mr. Coffee a license for time eternal. (See Op. at 608-10.) The Bankruptcy Court explained that "it is the exclusivity clause found in the Agreement, not in the Specification Exhibit, that is binding on the parties." (Op. at 609.)

Sunbeam argues that the Bankruptcy Court erred in concluding that Sunbeam was not a permanent exclusive licensee of the Patent. (See Sunbeam Br. at 37-38.) Sunbeam argues that there is testimonial evidence to support a determination that the design "was [forever] exclusive to Mr. Coffee even after the stated expiration of the Agreement." (Sunbeam Br. at 37-38.)

The Court reviews this issue of contract interpretation *de novo*, see *In re Chateaugay Corp.*, 156 B.R. at 404; accord *Jessica Howard Ltd.*, 316 F.3d at 168, giving controlling effect to the ordinary meaning of the plain language of the contract. See *Wauseon Plaza*, 807 N.E.2d at 957-58, 156 Ohio App.3d at 582. As stated earlier, a conflicting interpretation of the contract does not create ambiguity or a basis for

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unreasonable interpretation of the language, or the original intent of the parties, where no such ambiguity should reasonably be found. *See Ohio Water Dev. Auth.*, 776 N.E.2d at 535, 149 Ohio App.3d at 161.

The Court agrees with the Bankruptcy Court's reasoning here:

"According to this language of the Agreement, the Specification Exhibit is incorporated into the Agreement for the sole purpose of providing the specifications of the AD Coffeemakers. The summary of the terms provided in the Specification Exhibit does not govern the relationship between the parties, and it does not override the terms set forth in the body of the Agreement." (Op. at 609.)

Sunbeam's argument on the exclusive license issue calls for the Court to ignore the plain language of the Agreement. Despite the language in the exhibit and the testimony that Sunbeam references to explain the meaning of that language in the exhibit, the plain language of the Agreement does not support a determination that the parties intended for the Agreement to grant Mr. Coffee a perpetual exclusive license for the AD10. Moreover, there is testimonial evidence indicating that Mr. Coffee did not understand the Agreement to grant Mr. Coffee a perpetual exclusive license for the AD10.¹⁴ (*See Op.* at 610 (citing Blackwell deposition).)

14. This, of course, makes sense because Mr. Coffee did not expect to need a license in perpetuity at the time the Agreement was
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In any event, the plain language of the contract prevails over any disputed parole evidence. Thus, the Court finds that the Agreement neither provides for Sunbeam to have an exclusive permanent license to market and sell the AD10 nor for Sunbeam to have a license to use the Patent in perpetuity.

III. Equitable Issues

Having determined that Sunbeam does not have rights to the Patent as a joint inventor or as a perpetual licensee pursuant to the Agreement, the Court now considers whether Sunbeam has defenses for alleged infringement under principles of equity, namely the doctrines of equitable estoppel, implied license, and unenforceability. Being equitable doctrines, these defenses are committed to the sound discretion of the trial judge and are reviewed under the abuse of discretion standard. *See ABB Robotics, Inc. v. GMFanuc Robotics Corp.*, 52 F.3d 1062, 1063 (Fed.Cir.1995).

A. *Equitable Estoppel*

The Court first considers whether the Bankruptcy Court erred in concluding that, because Wing Shing did not engage

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drafted and executed. At that time, Mr. Coffee had no idea that Wing Shing would have a design patent that might hinder Mr. Coffee's sale of the AD10 coffeemakers. However, the Court cannot re-write or interpret the Agreement to take into account events that were not expected at the time and thus not provided for in the Agreement.

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in conduct that misled Sunbeam into believing it was free to use the Patent, Wing Shing was not equitably estopped from asserting an infringement claim. (See Op. at 599- 600.) The Bankruptcy Court based its conclusion on the March 9, 1995, fax sent by Wing Shing that "informed Sunbeam that 'the important point is that [Wing Shing] ha[s] the product design patent of the AD10 and . . . we can sell and we will sell the same product to other customers in the same market.'" (*Id.* at 599.) The Bankruptcy Court reasoned that, through that fax, "Sunbeam was aware of the existence of the Design Patent and of the possibility that Wing Shing might try to use the Design Patent as leverage in its dealings with Sunbeam." (*Id.*) The Bankruptcy Court also reasoned that, since several of Sunbeam's internal emails from 1998 revealed that Sunbeam believed Wing Shing would enforce its patent rights, Sunbeam was not misled by Wing Shing's conduct. (*See id.*)

Sunbeam argues that the Bankruptcy Court erred in failing to consider alleged instances where Wing Shing was silent when it should have threatened patent enforcement or should have stated its intention to file a patent application. (See Sunbeam Br. at 32-34.) Sunbeam also argues that the Bankruptcy Court's examination of the 1998 internal emails was erroneous because the emails might be relevant to evaluating whether Sunbeam relied on Wing Shing's conduct, but not to determining whether Wing Shing engaged in misleading conduct. (*See id.* at 34-35.) Sunbeam goes on to argue that Wing Shing did engage in misleading conduct when all the evidence is properly considered, that Sunbeam actually relied on Wing Shing's conduct, and that Sunbeam has been materially prejudiced due to this reliance. (*See id.* at 34-37.)

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A claim for equitable estoppel requires three elements: (1) that the patentee, through misleading conduct, lulled the alleged infringer to reasonably infer that the patentee would not enforce its patent rights against the alleged infringer, (2) that the alleged infringer relied on this conduct, and (3) due to the reliance, the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its claim. *See A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1041 (Fed.Cir.1992).

The Court declines to hold that the Bankruptcy Court abused its discretion by allegedly failing to consider instances where Wing Shing was silent. Admittedly, some of Wing Shing's conduct could plausibly be considered misleading or at least of a type that sent mixed signals as to whether Wing Shing would enforce its patent rights. However, the Bankruptcy Court, having held a trial on this matter, concluded that the weight of the evidence supported a finding that Wing Shing did not engage in conduct sufficiently misleading for Sunbeam to reasonably infer that Wing Shing would not enforce its patent rights. There is sufficient evidence to support this conclusion, including the March 1995 fax, and this Court does not see cause to disturb the Bankruptcy Court's decision on that basis.

With respect to the Bankruptcy Court's examination of the 1998 emails, Sunbeam is correct in arguing that the focus of the first element of estoppel should be on the patentee's conduct, not on the alleged infringer's beliefs, which are more properly the focus of the second element of estoppel. *See ABB Robotics, Inc.*, 52 F.3d at 1064; *Engineered Prods. Co. v. Donaldson Co.*, 165 F.Supp.2d 836, 850 (N.D.Iowa

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2001) (citing *ABB Robotics*). However, reversal on this ground would unduly elevate form over substance. It is clear from the opinion that the Bankruptcy Court found that Wing Shing's conduct, including the March 1995 fax from Wing Shing to Mr. Coffee, was not misleading and, more specifically, that Sunbeam did not rely on and was not misled by any such conduct. (See Op. at 599-600.) Reviewing the record, the Court does not find that either of these findings is clearly erroneous.¹⁵ The Bankruptcy Court might have been more precise in articulating its reasoning had it not discussed both of these findings under the umbrella of the first element rather than separately under the first and second elements. However, either of these findings would support the Bankruptcy Court's conclusion that the "defense [of equitable estoppel] should not bar Wing Shing's claims of patent infringement." (Op. at 600.) Thus, the Court declines to hold that the Bankruptcy Court abused its discretion in not finding equitable estoppel.

15. The fact that the Bankruptcy Court also found that "Wing Shing did not want to charge Mr. Coffee with infringement" does not "lead[] to the inevitable conclusion that the first element of estoppel has been established." (Sunbeam Br. at 35.) Being reluctant to antagonize a business relation does not equate to misleading the business relation into believing that no action will be taken if a situation persists. The scope of estoppel would be greatly expanded if reluctance to antagonize a business relation inevitably satisfied the first element. Indeed, reluctant as Wing Shing might have been, it still found the gumption to send Mr. Coffee the March 1995 fax regarding the Patent and possible future problems between the two firms.

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B. Implied License

Sunbeam also argues that Mr. Coffee has an implied license to manufacture and sell the AD10 coffeemakers. (See Sunbeam Br. at 39-40.) Wing Shing, in opposition, argues that this issue was never raised with the Bankruptcy Court and, thus, it should not be considered now on appeal. (See Br. of Wing Shing Prods. (BVI) Ltd. at 24 (hereinafter "WS Br.")). Sunbeam replies that the Court has discretion to adjudicate this issue in order to avoid manifest injustice and that the issue can be adjudicated without additional fact-finding since the elements of implied license are similar to equitable estoppel.¹⁶ (See Reply Br. of Appellant Sunbeam Prods., Inc. at 16-17 (hereinafter "Sunbeam Reply").)

In general, appellate courts do not consider issues that were not raised before the trial court. See *Baker v. Dorfman*, 239 F.3d 415, 420 (2d Cir.2000). However, this general rule is not an absolute bar, but rather a rule of prudence. An appellate court has discretion to consider issues raised for the first time on appeal and is apt to do so if necessary to avoid manifest injustice. See *id.*

16. A claim for implied license has three elements: (1) the patentee, through statements or conduct, gave an affirmative grant of consent or permission to the alleged infringer to make, use, or sell a product or process covered by a patent; (2) the alleged infringer relied on that statement or conduct; and (3) the alleged infringer would, therefore, be materially prejudiced if the patentee is allowed to proceed with its claim. See *Winbond Elecs. Corp. v. Int'l Trade Comm'n*, 262 F.3d 1363, 1374 (Fed.Cir.2001). These elements are similar to the elements of a claim for equitable estoppel. Compare *id.* (implied license) with *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1041 (Fed.Cir.1992) (equitable estoppel).

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However, the Court declines to consider whether Sunbeam has an implied license because the Court is not convinced that a manifest injustice needs to be corrected here. Though the Bankruptcy Court engaged in thorough fact-finding, interpretation of those facts is largely in the eye of the beholder. Sunbeam would like the Court to accept that Mr. Coffee was unfairly duped by the Wing Shing—that Wing Shing filed a patent behind the back of Mr. Coffee as Mr. Coffee was dealing honestly with Wing Shing and that Wing Shing later used the product of that deceitful tactic to restrict Mr. Coffee. Yet, Mr. Coffee is a sophisticated corporation, not a stranger to patents, to contracts, to selling coffeemakers, or to dealing with manufacturers. Given these facts, one could view Mr. Coffee's actions as deliberately turning a blind-eye to interactions with Wing Shing that should have raised red flags and placating Wing Shing when business was good, only to find itself in a precarious situation when business turned sour. This Court is not in a position to determine which of these contrasting interpretations is closer to the truth. For these reasons, the Court declines to consider Sunbeam's argument, raised for the first time on appeal.¹⁷

C. Unenforceability

Finally, Sunbeam argues that the "Bankruptcy Court erred in failing to consider Sunbeam's evidence that the

17. The Court also notes that, were the Court to consider this defense, Sunbeam would likely stumble on the same hurdles that tripped up its equitable estoppel defense. Specifically, the evidence appears to indicate that Wing Shing did not affirmatively grant consent through conduct and Mr. Coffee did not believe Wing Shing to have consented.

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[Patent] is unenforceable due to inequitable conduct.” (Sunbeam Br. at 40.) As evidence of inequitable conduct, Sunbeam argues that Wing Shing did not disclose to the U.S. Patent and Trademark Office (“PTO”) (1) contributions to the claimed design made by Mr. Coffee and (2) prior art coffeemakers that Sham learned of from Mr. Coffee. (*See id.* at 41.) Wing Shing counters that Sunbeam did not raise this issue with the Bankruptcy Court. (*See* WS Br. at 27.) Sunbeam replies that it did raise this issue, albeit by arguing these points in a post-trial reply brief to the Bankruptcy Court. (*See* Sunbeam Reply at 17; D21 at 14-17.)

As a general matter, courts do not consider arguments raised for the first time in reply submissions. *See, e.g., Evangelista v. Ashcroft*, 359 F.3d 145, 156 n. 4 (2d Cir.2004). Thus, the Bankruptcy Court was within its discretion to not consider whether the Patent was unenforceable due to inequitable conduct, and this Court finds no error in the Bankruptcy Court’s decision.

Alternatively, the Court notes that Sunbeam’s argument would fail on the merits if it were considered. To hold a patent unenforceable for inequitable conduct, a court must find, by clear and convincing evidence, that the applicant omitted or misrepresented material facts with the intention of misleading or deceiving the patent examiner. *See Monsanto Co. v. Bayer Bioscience N.V.*, 363 F.3d 1235 (Fed.Cir.2004). Once the challenger has shown the requisite levels of materiality and intent, the court must balance the equities to determine whether the patentee has committed inequitable conduct that warrants holding the patent unenforceable. *See id.*

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Since the Bankruptcy Court determined (and this Court affirmed) that Mr. Coffee was not a joint inventor of the Patent, Sunbeam's first point could not be the basis for finding inequitable conduct sufficient to deem the Patent unenforceable. *Cf. PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1321 (Fed.Cir.2000) ("[I]nventorship is material").

As to Sunbeam's second point, Sunbeam has simply failed to highlight facts in the record below from which a court could infer that Wing Shing intended to mislead the PTO about prior art learned of from Mr. Coffee, thereby rendering the Patent unenforceable. The sum total of Sunbeam's argument here, which is the same argument that Sunbeam made in its post-trial reply submission to the Bankruptcy Court, is that Sham knew of alleged prior art and did not disclose it to the PTO. (*See* Sunbeam Br. at 42; Sunbeam Reply at 17-18; D21 at 16-17.) However, intent to deceive cannot be inferred solely from the fact that information was known to the patentee and not disclosed to the PTO; there must be a factual basis for a finding of deceptive intent. *See Catalina Lighting, Inc. v. Lamps Plus, Inc.*, 295 F.3d 1277, 1288-89 (Fed.Cir.2002). It is not enough to argue that, because "[p]atentees must err on the side of disclosure," a court should infer an intent to mislead such that a patent becomes unenforceable. (Sunbeam Reply at 18.) Therefore, the Court declines find that the Bankruptcy Court erred in failing to determine whether the Patent is unenforceable due to inequitable conduct.

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VI. Notice of Infringement

The Court now turns to the issues in Wing Shing's appeal, first addressing the Bankruptcy Court's conclusion that, "[h]aving failed to provide constructive or actual notice to Sunbeam prior to the commencement of the District Court Action, Wing Shing is precluded from the recovery of pre-suit claims." (Op. at 603-04.) Wing Shing argues that the Bankruptcy Court erred in holding that Wing Shing "forfeited" its right to prove actual notice rather than evaluating evidence of actual notice. (*See* WS Br. at 29-30.) Wing Shing also argues that, "[e]ven if this Court reads the [Bankruptcy Court's decision] to find as a matter of fact that Sham did not provide" actual notice to Sunbeam, that finding is clearly erroneous given the weight of the evidence against the finding. (*See id.* at 30-32.)

The Court disagrees. The amount of damages a patentee may recover in an infringement action is statutorily limited to those acts of infringement that occurred after the alleged infringer had "notice of infringement." *See* 35 U.S.C. § 287(a) (1994). The statute permits either constructive notice, which may be accomplished by marking the article with the patent number, or actual notice. *See Gart v. Logitech, Inc.*, 254 F.3d 1334, 1345 (Fed.Cir.2001). The purpose of the notice requirement is to assure that the accused infringer knew of the adverse patent and the alleged infringement during the period in which liability for infringement accrues. *See id.*

"[M]ere notice of the patent's existence or ownership is not notice of the infringement, and as such would be insufficient to comply with section 287(a)." *Id.* (quotations

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omitted). Rather, “affirmative communication to the alleged infringer of a specific charge of infringement by a specific accused product or device is required”. *Id.* (quotations omitted). This does not mean that an unqualified charge of infringement and a threat of suit are needed. *See id.* at 1345-46. It is enough for a patentee to provide the alleged infringer with the identity of the patent, the activity believed to be infringing, and a proposal to somehow abate the alleged infringement. *See id.*

The patentee has the burden of proving compliance with notice requirements. *See Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1111 (Fed.Cir.1996). Whether a patentee has provided adequate notice of infringement is a question of fact. *See Gart*, 254 F.3d at 1339 (“compliance with the marking statute, 35 U.S.C. § 287(a), is a question of fact”). The focus of the inquiry is on the actions of the patentee; the knowledge or understanding of the alleged infringer is irrelevant. *See id.* at 1346.

This Court does not read the Bankruptcy Court’s decision as failing to accept or reject evidence of actual notice. Wing Shing contends that adequate notice of infringement was provided in a January 1996 conversation between Sham and Kubis at the Chicago housewares show. (*See WS Br.* at 29.) However, other than Sham’s own testimony, there is no evidence that the conversation ever took place, much less that Sham provided Kubis the information necessary to satisfy notice during the alleged conversation. The Bankruptcy Court decided that it was “unwilling to accept an uncorroborated, self-serving conversation as the only evidence of actual notice of infringement.” (*Op.* at 603.) The

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Court reads that as outright rejection of the evidence. The fact that “the Bankruptcy Court could have more precisely, and concisely, used the phrase ‘does not accept,’” Wing Shing Reply Br. at 2, does not detract from the Bankruptcy Court’s finding. Though not to Wing Shing’s liking, the Bankruptcy Court’s “forfeiture” language simply expresses that the uncorroborated statement does not meet the required burden of proof.

This Court declines to disturb the Bankruptcy Court’s finding. Focusing on the actions of Wing Shing, the Bankruptcy Court reasoned that Wing Shing’s “sole source of actual notice”—the uncorroborated conversation—did not sustain a finding of actual notice. (*See Op.* at 603-04.) This is an issue of fact. The Bankruptcy Court was in the best position to judge the credibility of witnesses and determine whether testimony was credible. The Bankruptcy Court did not commit clear error in determining that Wing Shing failed to provide constructive or actual notice to Sunbeam and, therefore, is precluded from the recovery of pre-suit claims.¹⁸

VII. Calculation of Profit

Finally, the Court addresses Wing Shing’s appeal regarding the Bankruptcy Court’s decision to exclude certain items from its calculation of Sunbeam’s profit. Pursuant to 35 U.S.C. § 289, the Bankruptcy Court calculated Sunbeam’s

18. Because this Court affirms the Bankruptcy Court’s conclusion on the issue of notice, this Court does not address Wing Shing’s argument regarding the doctrine of laches, *see* WS Br. at 32-41, which is an alternate theory that prevents Wing Shing from recovering pre-suit claims. (*See Op.* at 603.)

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total profit resulting from the infringement. (*See Op.* at 618.) In calculating the total profit, the Bankruptcy Court determined that portions of certain categories of fixed expenses were deductible. (*See id.* at 619.) After declining to deduct seven categories of expenses, the Bankruptcy Court held that “the remainder of the line items are directly related to the AD Coffeemakers, and that the AD Coffeemakers could not have been brought to market without them.” (*Id.*)

Wing Shing first takes issue with the 11 categories that comprise “the remainder of the line items.” (WS Br. at 42-25.) Specifically, Wing Shing argues that the Bankruptcy Court erred as a matter of law in deducting portions of these categories because Sunbeam presented insufficient evidence of “what these categories included” and their connection to the AD coffeemakers. (WS Br. at 44.) Secondly, Wing Shing argues that “the Bankruptcy Court erred as a matter of law in allowing Sunbeam to allocate to the infringing AD Series coffeemakers costs that Sunbeam incurred as a result of its sales of Wing Shing coffeemakers.” (WS Br. at 44.) By this argument, Wing Shing seeks to exclude fixed costs incurred by Sunbeam. “For example, if Sunbeam sold AD Series coffeemakers from Wing Shing, Sunbeam’s marketing expenses would have been the same regardless of whether Sunbeam sold AD Series coffeemakers from Simatelex.” (*Id.*)

As a preliminary matter, this Court notes that questions as to the sufficiency of evidence are issues of fact and are reviewed under the “clearly erroneous” standard. “The infringer has the burden of ‘offering a fair and acceptable formula for allocating a given portion of overhead to the particular infringing items in issue.’” *Hamil Am., Inc.*

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v. *GFI, Inc.*, 193 F.3d 92, 105 (2d Cir.1999) (citing 4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright* § 14.03[B], at 14-39 (1996)). "The reasonableness of the proffered overhead allocation formula is a question of fact in all cases." *Id.*

The Court finds that there is sufficient evidence on the record for the Bankruptcy Court to make reasonable determinations as to what categories and portions of items should be included and what costs should be deducted in calculating Sunbeam's profit. (See D66; D67; D82 at 162:2-163:14, 163:24-164:19, 165:5-165:22, 179:17-181:10, 181:23-182:25.) Absolute certainty is not required of damages calculations. See *Hamil*, 193 F.3d at 105 ("In adopting this pragmatic approach, the court implicitly rejected the need for a detailed analysis of an infringer's ledgers."). The goal "is to arrive at a fair, accurate, and practical method of allocating the implicated overhead to the infringement." *Id.* The Court finds that the Bankruptcy Court accomplished this goal and declines to disturb the Bankruptcy Court decision, finding no clear error in the damages calculations as to the 11 categories of line items.

Wing Shing's second argument fares no better. What Wing Shing is really arguing here is that Sunbeam should not be allowed to deduct any portion of a fixed cost since, by definition, the fixed cost would have been incurred regardless of the infringement. Yet, profit from the infringing product is dependant to some extent on such fixed costs. To take Wing Shing's marketing example, had there been no marketing expenditures, sales of the infringing product would have slumped, driving down profit. "[T]he fixed expenses

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are as necessary to the infringing production as are the variable expenses, and should be similarly treated." *Schnadig Corp. v. Gaines Mfg. Co.*, 620 F.2d 1166, 1172 (6th Cir.1980). "The basic truth [is] that no article of manufacture can be profitable in a real sense if it cannot bear its proportionate share of the fixed costs." *Id.* Indeed, the dubiousness of Wing Shing's argument is best illustrated by the converse argument—that an infringer should be able to deduct the whole of the fixed costs from the sale of the infringing product because, without those costs, the infringer could never have sold the product. As the Bankruptcy Court correctly decided, portions of fixed costs are deductible in calculating profit to the extent those portions can be attributed to the infringing product. (See Op. at 619.) The Court finds no error in the Bankruptcy Court's damages calculations.

CONCLUSION

For the reasons set forth above, the Bankruptcy Court's memorandum decision is affirmed in part and reversed in part. [03cv7190, 1-1, 6-1; 03cv7921, 1-1; 04cv3347, 2-1, 3-1]

SO ORDERED.

Dated: New York, New York
June 29, 2004

s/ Richard J. Holwell
Richard J. Holwell
United States District Judge

**APPENDIX C — MEMORANDUM DECISION, AFTER
TRIAL, REGARDING THE OWNERSHIP AND
INFRINGEMENT OF U.S. PATENT NO. D348,585 OF
THE UNITED STATES BANKRUPTCY COURT FOR
THE SOUTHERN DISTRICT OF NEW YORK
DATED JUNE 3, 2003**

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

Chapter 11 Case No.

01-40252 (AJG)

(Jointly Administered)

Adversary Proceeding

No. 01-2439(AJG)

In re

AI REALTY MARKETING OF NEW YORK, INC., LASER
ACQUISITION CORP., DDG I, INC., SUNBEAM
AMERICAS HOLDINGS, LTD., et al.,

Debtors.

SUNBEAM PRODUCTS, INC.,

Plaintiff-Counterclaim Defendant,

v.

WING SHING PRODUCTS (BVI) LTD.,

Defendant-Counterclaimant.

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**MEMORANDUM DECISION, AFTER TRIAL,
REGARDING THE OWNERSHIP AND
INFRINGEMENT OF U.S. PATENT NO. D348,585**

ARTHUR J. GONZALEZ
United States Bankruptcy Judge

I. INTRODUCTION

Plaintiff-Counterclaim Defendant, Sunbeam Products, Inc. ("Sunbeam"), a corporation organized and existing under the laws of the State of Delaware with its principal place of business located in Palm Beach County, Florida, is a subsidiary of Sunbeam Corporation. Sunbeam acquired Signature Brands, Inc. ("Signature Brands") in 1998, which had previously acquired Mr. Coffee, Inc. ("Mr. Coffee") in 1996.¹ Defendant-Counterclaimant, Wing Shing Products (BVI) Ltd. ("Wing Shing"), a corporation organized and existing under the laws of the British Virgin Islands with a place of business in Hong Kong, is a subsidiary of Global-Tech Appliances Inc. ("Global-Tech"), a publicly traded company listed on the New York Stock Exchange. Wing Shing is one of a family of companies under common ownership and management.² Wing Shing is a manufacturer

1. For purposes of this Memorandum Decision, Sunbeam, Signature Brands and Mr.-Coffee are sometimes referred to collectively as "Sunbeam."

2. For purposes of this Memorandum Decision, all Wing Shing-related entities, including Wing Shing Products (BVI), Limited, Wing Shing Overseas, Ltd. and Pentalpha Enterprises, Inc. ("Pentalpha"), are sometimes referred to collectively as "Wing Shing."

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of coffeemakers and other consumer products. Since 1992, Wing Shing has supplied model number AD10 coffeemakers (the "AD10"), a 10-cup coffeemaker, and derivatives and variations of the AD10 (together with the AD10, each an "AD Coffeemaker" and collectively, the "AD Coffeemakers") to Sunbeam. Since at least 1994, Sunbeam has also sourced AD Coffeemakers from Simatelex Manufactory Co., Ltd. ("Simatelex"), another manufacturer of consumer products. Wing Shing is the holder of the design patent for the AD Coffeemaker specifications, U.S. Patent No. D348,585 (the "Design Patent").

On February 23, 2001, Sunbeam commenced this adversary proceeding (the "Adversary Proceeding") against Wing Shing, requesting this Court to enter a judgment declaring that Sunbeam: (i) is the exclusive owner of the Design Patent; (ii) has an indefinite exclusive license to market and sell the AD Coffeemakers in the United States, Canada and Mexico; and (iii) has the full right and authority to choose the supplier of its choice for the manufacture of the AD Coffeemakers. On March 13, 2001, Wing Shing filed a counterclaim against Sunbeam requesting this Court to enter a judgment, as later amended: (i) permanently enjoining Sunbeam, its officers, directors, employees and attorneys and all those acting in concert with them from infringing the Design Patent; (ii) awarding Wing Shing its damages and/or the total profits from the infringement of the Design Patent; (iii) awarding Wing Shing treble damages; and (iv) awarding Wing Shing its costs relating to the action brought before this Court including its reasonable attorneys' fees.

Sunbeam contends that it was assigned the Design Patent by Wing Shing pursuant to an agreement between Mr. Coffee

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and Wing Shing Overseas Ltd., entered into as of June 22, 1992 (the "Agreement"), and that it also holds an indefinite exclusive license to the Design Patent pursuant to the Agreement. Furthermore, Sunbeam asserts that, as a result of the contributions that Mr. Coffee made to the development of the Design Patent, this Court should find that it is a joint inventor of, and is therefore entitled to exploit, the Design Patent. In response, Wing Shing claims that Sunbeam has not been assigned any rights to the Design Patent pursuant to the Agreement, nor was Sunbeam granted a license to the Design Patent extending beyond December 31, 1994, the termination date of the Agreement. Wing Shing also claims that John Sham ("Sham"), president of Wing Shing Global-Tech, is the sole inventor of the Design Patent.

The following decision is the Court's findings of fact and conclusions of law under Rule 52 of the Federal Rules of Civil Procedure, as incorporated into this Adversary Proceeding under Rule 7052 of the Federal Rules of Bankruptcy Procedure.

II. JURISDICTION

This Adversary Proceeding relates to the Chapter 11 cases, styled *In re AI Realty Marketing of New York, Inc., Laser Acquisition Corp., DDG I, Inc., Sunbeam Americas Holdings Ltd., et al.*, Chapter 11 Case Nos. 01-40252(AJG) through 01-40290(AJG). The Court has jurisdiction over this Adversary Proceeding pursuant to section 1334(b) of title 28 of the United States Code. This Adversary Proceeding is a core proceeding pursuant to section 157(b) of title 28 of the United States Code. Venue is proper in the district of

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New York pursuant to section 1408 of title 28 of the United States Code.

III. FACTUAL AND PROCEDURAL BACKGROUND

In June 1991, Sham approached Mr. Coffee to inquire into a potential business relationship between the two entities. Sham informed Mr. Coffee that Wing Shing had coffeemakers of a specific design that it was interested in manufacturing and selling to Mr. Coffee. Sham provided Jeffrey Blackwell ("Blackwell"), then Vice President of Operations of Mr. Coffee, with sketches of the proposed coffeemakers. On July 23, 1992, Sham informed Dilworth & Barrese, LLP, patent counsel to Wing Shing, that Wing Shing wanted to proceed with the Design Patent, which represented the design of the coffeemakers that Sham had previously forwarded to Blackwell. In August 1991, Blackwell responded to Sham with a number of questions concerning the proposed coffeemaker's design and requesting a price quote. Sham followed-up with a photograph of a wooden model depicting the proposed coffeemaker. Beginning with Blackwell's August 1991 letter through early 1992, there were multiple correspondences between Mr. Coffee and Wing Shing regarding the proposed coffeemaker. Through these correspondences Mr. Coffee suggested a number of changes to the coffeemaker to Wing Shing. These included the following:

- *Eliminating the grooves on the brew basket.*
The proposed coffeemaker originally had grooves on its brew basket.

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- *Eliminating the ridges on the reservoir cover.* The proposed coffeemaker originally had ridges on its reservoir cover.
- *Moving the power switch to the column.* The proposed coffeemaker originally had the power switch on its base.
- *Opening the brew basket from left to right.* The proposed coffeemaker originally opened from right to left.
- *Moving the water-level gauge from the right to left side of the coffeemaker.* The proposed coffeemaker originally positioned the water-level gauge on the right side.
- *Inserting a bottom metal plate.* Mr. Coffee provided Wing Shing with a sample metal plate, modeled after the plate located on the bottom of the Mr. Coffee IDS40 coffeemaker, to be inserted on the bottom of the coffeemaker.
- *Adding a shroud to the power switch.* The proposed coffeemaker did not have a shroud.

On November 8, 1991, Mr. Coffee provided Wing Shing with a draft supply agreement. Mr. Coffee and Wing Shing proceeded to negotiate the terms of this supply agreement, and entered into the Agreement as of June 22, 1992. Sham executed the Agreement on July 1, 1992, and Mark Kopaskie

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("Kopaskie"), who succeeded Blackwell as Vice President of Operations at Mr. Coffee, executed the Agreement on July 13, 1992. Terms of particular import are as follows:

- Paragraph 4(a) of the Agreement states that "this Agreement shall begin on January 7, 1992 and shall extend through December 31, 1994." The Agreement also provides that it may be terminated by Mr. Coffee prior to the end of its term upon at least ninety (90) days prior written notice.
- Paragraph 16(a) of the Agreement states that "[a]ny and all existing patent rights for the units or any of its component parts shall be the sole and exclusive property and/or responsibility of Mr. Coffee. In the event that Mr. Coffee and [Wing Shing] jointly develop a patentable item both parties agree to negotiate patent rights prior to applying for the patent."
- Paragraph 17 of the Agreement provides that Mr. Coffee shall have an "exclusive license" to market and sell the [AD Coffeemaker] in accordance with the terms of the Agreement in the United States, Canada and Mexico.
- Paragraph 9 of the Agreement provides that the "tooling, and drawings related thereto, is the property of Mr. Coffee, inc. [sic]."

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Subsequent to the execution of the Agreement, Wing Shing began to manufacture and sell AD Coffeemakers to Mr. Coffee pursuant to the terms of the Agreement. Mr. Coffee paid \$100,000 to Wing Shing for the tooling necessary to manufacture the AD10.

On July 13, 1992, Sham filed an application for a design patent on the AD Coffeemaker without informing Mr. Coffee that he was doing so. Sham listed himself as the AD Coffeemaker's sole inventor on the patent application. Sham was issued the Design Patent by the United States Patent and Trademark Office on July 12, 1994. Sham did not inform Mr. Coffee of the issuance of the Design Patent. At no time thereafter did Wing Shing include notice of the Design Patent on the AD Coffeemakers or their packaging.

In a communication to Wing Shing dated November 28, 1994, Mr. Coffee told Wing Shing that Simatelex was also manufacturing AD Coffeemakers for Mr. Coffee. Wing Shing did not object to the manufacture and sale of the AD Coffeemakers by Simatelex at that time. On March 9, 1995, in a facsimile (the "March 9, 1995 Fax") to Dan Kubis ("Kubis"), then an employee of Mr. Coffee, and in response to Mr. Coffee's request to transfer certain tooling to another manufacturer, Wing Shing wrote, "[a]s regarding to the tooling that you requested to have it to be transferred to other manufacturer, it's a bad news to us. However, you own this tooling and we will have no objection if you decided to do so . . . the important point is that we have the product design patent of AD10 and was being filed. That means, we can sell and we will sell the same product to other customers in the same market. It will definitely create business conflicts

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between us." Wing Shing refrained from informing Mr. Coffee that it (Mr. Coffee) was infringing the Design Patent and from requesting that Mr. Coffee cease and desist such activity.

On or about January 18, 1996, Sham attended an international houseware show (the "Chicago Houseware Show") in Chicago, Illinois. During the Chicago Houseware Show, Sham observed at Mr. Coffee's booth an AD Coffeemaker that Wing Shing had not manufactured. Sham allegedly discussed this non-Wing Shing AD Coffeemaker with Kubis at the Chicago Houseware Show. On January 18, 1996, Kubis sent a letter to Wing Shing complaining that several Mr. Coffee customers had noticed that Pillsbury was selling the AD Coffeemaker under its name. Kubis also indicated in that letter that a major customer was interested in shifting its business with Mr. Coffee from the AD10 to an AD12 coffeemaker (the "AD12"). Kubis said that Mr. Coffee would like to "reward" Wing Shing by having it manufacture the necessary AD12 should the AD10 business decrease. Wing Shing responded by facsimile, dated February 1, 1996, stating that it would provide a quote for the AD12. Wing Shing also stated that it would cease producing the AD Coffeemaker for Pillsbury upon Mr. Coffee's request. On June 10, 1996, Sham assigned the Design Patent to Wing Shing for the sum of US \$25,000.

In the fall of 1998, Sunbeam, which had acquired the Mr. Coffee product line, considered shifting the production of AD Coffeemakers away from Wing Shing to Simatelex. In an email correspondence to Bob Hunt, an employee of Sunbeam, dated November 1, 1998, David Buck, another

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Sunbeam employee, concluded that, "Pentalpha [Wing Shing] owns the tooling and design [of the AD Coffeemaker], even though 4 or 5 years ago we made the decision to tool the same design at Simatelex. They either don't realize this fact at Pentalpha [Wing Shing] or have kept quiet about it because our business was increasing with them. It likely WILL be an issue if we part ways with them, however." This email exchange formed the basis for an email from Paul Warfel ("Warfel"), an employee of Sunbeam, dated November 27, 1998, to Dana Blanch, another Sunbeam employee, that stated, "[t]he design [of the AD Coffeemakers] may change slightly to avoid any patent issues." Warfel also wrote in an internal Sunbeam memorandum, dated November 3, 1998, that Wing Shing owned the tooling and design of the AD Coffeemaker. In 1998, Sunbeam conducted a patent search relating to the Design Patent in connection with Sunbeam's reduction in product sourcing from Wing Shing. Sunbeam searched for design patents owned by Pentalpha and found nothing since the Design Patent was never assigned to that entity. Outside counsel was not employed by Sunbeam to assist with this patent search. Sunbeam has been unable to provide corroborating evidence that the search was conducted.

From 1999 to 2000, Sunbeam's volume of purchases from Wing Shing decreased by approximately 50%. On February 9, 2001, Wing Shing asserted a claim for patent infringement by filing a complaint in the United States District Court for the Southern District of New York against Simatelex (the "District Court Action"). Wing Shing also submitted an application for an order of attachment. On February 15, 2001, Wing Shing filed a motion for relief from

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the automatic stay in the Sunbeam bankruptcy proceeding. On February 23, 2001, Sunbeam sought enforcement of the automatic stay and commenced this Adversary Proceeding against Wing Shing. On February 26, 2001, this Court denied Wing Shing's motion for relief from the automatic stay and enjoined Wing Shing from pursuing the District Court Action. On March 9, 2001, Wing Shing filed an answer and counterclaim in this Court.

IV. DISCUSSION

A. *Sunbeam's Equitable Estoppel and Laches Defenses*

Sunbeam has argued that Wing Shing is barred by the doctrine of equitable estoppel from collecting damages based on its claims of patent infringement. Sunbeam also claims that the doctrine of laches bars any recovery for acts of infringement prior to the commencement of this litigation. The defenses of equitable estoppel and laches are committed to the sound discretion of the court. *See A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed.Cir.1992) ("As equitable defenses, laches and equitable estoppel are matters committed to the sound discretion of the trial judge."). *See also Ducon Env'tl. Sys. Inc. v. Delta Conveying, Inc.*, No. 98-CV-0466, 2000 WL 270976, at *4, 2000 U.S. Dist. LEXIS 2894, at *13 (E.D.N.Y. March 8, 2000). Preponderance of the evidence is the appropriate evidentiary standard to be applied in connection with the proof of equitable estoppel and laches factors. *Aukerman*, 960 F.2d at 1045-1046. Using this standard of review, the Court holds that Wing Shing's claims are not barred by the doctrine of equitable estoppel, although Wing Shing is barred

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from recovery for acts of infringement prior to the commencement of the District Court Action by the doctrine of laches.

1. *Sunbeam's Defense of Equitable Estoppel*

The doctrine of equitable estoppel is a complete defense to a charge of patent infringement. *See Aukerman*, 960 F.2d at 1041. *See also Fuji Mach. Mfg. Co., Ltd. v. Hover-Davis, Inc.*, 60 F.Supp.2d 111, 115 (W.D.N.Y.1999). The elements of this defense are:

- 1) The patentee, through misleading conduct, leads the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer. "Conduct" may include specific statements, action, inaction or silence where there was an obligation to speak;
- 2) The alleged infringer relies on that conduct; and
- 3) Due to its reliance, the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its claim.

Aukerman, 960 F.2d at 1028. *See also Essilor Int'l v. Nidek Co., Ltd.*, No. 95-CV-1243, 1998 U.S. Dist. LEXIS 22960, at *64 (E.D.N.Y. July 27, 1998).

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Sunbeam argues that Wing Shing's claim of patent infringement is barred by the doctrine of equitable estoppel. However, the Court does not agree with Sunbeam's conclusion that, in satisfaction of the first element necessary to prove the defense of equitable estoppel, Wing Shing engaged in "misleading conduct" that led Sunbeam to infer that Wing Shing would not enforce the Design Patent. In *Forest Labs., Inc. v. Abbott Labs.*, No. 96-CV- 159-A, 1999 WL 33299123, at *7, 1999 U.S. Dist. LEXIS 23215, at *21 (W.D.N.Y. June 23, 1999), the court determined that "[i]n order to prove misleading conduct, the alleged infringer must show that the patentee somehow communicated to the alleged infringer that it did not intend to press an infringement claim. The alleged infringer may satisfy this requirement by producing evidence of affirmative statements or conduct by the patentee from which it is reasonable to infer that the patentee was not going to pursue an infringement claim." *See also Aukerman*, 960 F.2d at 1042. The Court looks to the facts of the case at hand to determine whether Wing Shing's conduct was indeed misleading.

Sham alleges that he informed Kubis at the Chicago Houseware Show that Wing Shing held the Design Patent and that Sunbeam should not buy AD Coffeemakers from another manufacturer. (Tr. 12/11/01 p. 47:8-10). The Court notes that this conversation is uncorroborated and, given the length of time that passed between the alleged conversation and the inception of Wing Shing's cause of action, the Court is reluctant to give weight to this alleged conversation. However, in the March 9, 1995 Fax from Wing Shing to Kubis, Wing Shing informed Sunbeam that "the important point is that we have the product design patent of AD10 and

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was being filed. That means, we can sell and we will sell the same product to other customers in the same market." (Ex. 21). Wing Shing has conceded that it never claimed that the March 9, 1995 Fax provided actual notice of the infringement, (Defendant-Counterclaimant's Post-Trial Reply Memorandum at 17), although the fax does indicate that Sunbeam was aware of the existence of the Design Patent and of the possibility that Wing Shing might try to use the Design Patent as leverage in its dealings with Sunbeam.

The meaning that Sunbeam assigned to the March 9, 1995 Fax and to Wing Shing's ownership of the Design Patent may be ascertained through an email sent by Buck to Hunt dated October 1, 1998, and through subsequent Sunbeam internal correspondence. Buck wrote that "Pentalpha [Wing Shing] owns the tooling and the design [of the AD Coffeemakers], even though 4 or 5 years ago we made the decision to tool the same design at Simatelex . . . It likely WILL be an issue if we part ways with them." (Ex. 30). In a subsequent email sent by Warfel to Blanch dated October 27, 1998, Warfel wrote, "[t]he design [of the AD Coffeemaker] may change slightly to avoid any patent issues." (Ex. 31). Despite the fact that Buck was incorrect in his determination that Wing Shing owned the tooling for the AD Coffeemaker, these email exchanges suggest that, at the very least, Sunbeam was aware of potential patent infringement issues regarding the AD Coffeemakers, and that Sunbeam had to consider these potential infringement issues when contemplating its strategy regarding the AD Coffeemakers. These emails also demonstrate that, rather than being led to believe that Wing Shing was not going to pursue an infringement claim, Sunbeam was in fact concerned

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that the Design Patent might potentially become an issue of contention should Sunbeam cease doing business with Wing Shing. Furthermore, the Warfel email confirms that Sunbeam had contemplated reworking the AD Coffeemaker design to avoid conflict with Wing Shing. These internal communications lead this Court to conclude that Sunbeam was not misled by Wing Shing's conduct, and that Sunbeam was aware of and had discussed internally the potential danger of a patent infringement action being brought by Wing Shing at some future date. Therefore, the Court holds that the first element of the doctrine of equitable estoppel has not been satisfied, and this defense should not bar Wing Shing's claims of patent infringement.

2. Sunbeam's Defense of Laches

The doctrine of laches bars any recovery for alleged acts of infringement prior to the commencement of the District Court Action. *See Aukerman*, 960 F.2d at 1041. *See also In re Singer Co., N.V.*, No. 01 Civ. 0165, 2002 WL 999273, at *15, 2002 U.S. Dist. LEXIS 8609, at *44 (S.D.N.Y. May 14, 2002). The elements that underlie the defense of laches are:

- 1) The patentee's delay in bringing suit was unreasonable and inexcusable; and
- 2) The alleged infringer suffered material prejudice attributable to the delay.

Aukerman, 960 F.2d at 1028. *See also Fuji Mach. Mfg. Co., Ltd.*, 60 F.Supp.2d at 115.

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A presumption of laches arises from a delay in filing suit exceeding a period of six years. *Aukerman*, 960 F.2d at 1035. Sunbeam argues that a presumption of laches is applicable in this case, since Wing Shing first learned that Simatelex was manufacturing AD Coffeemakers through a communication received from Sunbeam on November 28, 1994. (Ex. AH). In his testimony, Sham acknowledged that as of that date Wing Shing was aware that Simatelex was manufacturing AD Coffeemakers. (Tr. 12/11/01 p. 44:14-22). However, Wing Shing argues that the six-year period has not been met in this instance since, if Sunbeam held a license for the Design Patent through the termination of the Agreement on December 31, 1994, then the six-year period would not begin until May 1995 when Sunbeam first purchased AD Coffeemakers from Simatelex after the termination of the Agreement. Wing Shing also argues that Sunbeam did not engage in a continuous six-year period of infringement because there were blocks of time when Sunbeam did not purchase AD Coffeemakers from Simatelex. Regardless of whether a presumption of laches arises in this case or not, the Court may look to the underlying elements and the facts to determine whether a defense of laches has been established. *See Aukerman*, 960 F.2d at 1036 ("Laches remains an equitable judgment of the trial court in light of all the circumstances."). This Court holds that Sunbeam has demonstrated that the underlying elements of laches have clearly been met, thus establishing a defense of laches regardless of whether the presumption applies.

Concerning the first element of laches, the Court concludes that Wing Shing's delay in bringing suit was unreasonable and inexcusable. *Aukerman* reasons that "[t]he

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length of time which may be deemed unreasonable has no fixed boundaries but rather depends on the circumstances.” *Aukerman*, 960 F.2d at 1032. *See also Essilor*, 1998 U.S. Dist. LEXIS 22960, at *59. As previously discussed, Wing Shing knew that Simatelex was manufacturing AD Coffeemakers from November 28, 1994, but chose not to bring suit for patent infringement until February 9, 2001. When considering whether a patentee’s delay was unreasonable and inexcusable, a court must also weigh any justification offered by the patentee for its delay. *Aukerman*, 960 F.2d at 1033. In justifying its delay in bringing suit, Wing Shing argues that it believed that Simatelex was only manufacturing a minimal quantity of AD Coffeemakers, and that therefore the patent infringement was limited in scope. (Tr. 12/11/01 p. 147:5-14). The extent of infringement has been recognized as an excuse for a delay in bringing suit. *Aukerman*, 960 F.2d at 1033. However, this Court does not agree with Wing Shing’s assertion that it chose not to initiate the current action because of the perceived limited scope of the infringement.

Wing Shing received numerous indications that Sunbeam was having a substantial quantity of AD Coffeemakers produced by non-Wing Shing manufacturers. Beyond Sunbeam’s written correspondence to Wing Shing in November 1994, which stated that Simatelex was producing AD Coffeemakers for Sunbeam, Sham had also observed AD Coffeemakers that were not manufactured by Wing Shing at the Chicago Houseware Show. Furthermore, in the March 9, 1995 Fax, Wing Shing acknowledged that Mr. Coffee had requested to have the tooling for the AD Coffeemakers transferred to another manufacturer, ostensibly so that such

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manufacturer could produce AD Coffeemakers. Sunbeam's January 18, 1996 correspondence to Wing Shing also indicated that Mr. Coffee was having the AD12 coffeemaker produced in small quantity by another company at that time. These indications, taken in concert, should have suggested to Wing Shing that the AD Coffeemakers were being produced by other manufacturers in potentially large quantities. If Wing Shing had been concerned with the enforcement of the Design Patent, it should have made a concerted effort to investigate the extent of the potential infringement and then brought action to enjoin such infringement.

The Court finds, however, that Wing Shing had ample reason not to bring suit against Mr. Coffee or Sunbeam, as demonstrated by Sham's testimony. Sham admitted that he instructed Peter Yu ("Yu"), a Wing Shing employee, not to include any references to the potential infringement of the Design Patent, or to demand that Mr. Coffee cease and desist buying AD Coffeemakers from Simatelex, because Wing Shing did not want to lose Mr. Coffee's valuable business. (Tr. 12/11/01 p. 145:22-147:14). Furthermore, Sham went on to state that he did not want Yu to stop the infringement because Wing Shing did not want to jeopardize its relationship with Mr. Coffee. Later in his testimony, Sham acknowledged that part of the reason that Wing Shing was finally motivated to bring the current action was because the volume of Sunbeam's purchases of Wing Shing products dropped by 50% between 1999 and 2000. (Tr. 12/11/01 p. 171:12-16). Accordingly, the Court concludes that it is highly unreasonable for Wing Shing to expect to benefit from its failure to bring suit in a timely manner while enjoying

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Sunbeam's business, despite the fact that it had ample reason to believe that the Design Patent was being infringed, and to now recover damages for patent infringement during the pre-suit period. Wing Shing's failure to take action to cease the infringement of the Design Patent was both unreasonable and inexcusable, and satisfies the first element of the defense of laches.

With regard to the second element of the laches defense, prejudice or injury to adverse parties resulting from the plaintiff's delay may be either economic or evidentiary. See *Aukerman*, 960 F.2d at 1033. See also *Essilor*, 1998 U.S. Dist. LEXIS 22960, at *59. "Economic prejudice may arise when a defendant and possibly others will suffer the loss of monetary investments or incur damages which likely would have been prevented by earlier suit." *Aukerman*, 960 F.2d at 1033.

Regarding economic injury, *Aukerman* emphasizes that "a patentee may [not] intentionally lie silently in wait watching damages escalate, particularly where an infringer, if he had had notice, could have switched to a noninfringing product." *Id.* at 1033. However, as discussed in this Court's analysis of Sunbeam's alleged defense of equitable estoppel above, although the March 9, 1995 Fax from Wing Shing to Mr. Coffee did not amount to notice of infringement for statutory purposes, the fax did alert Mr. Coffee to the fact that the Design Patent could become problematic for Mr. Coffee at some future date. Sunbeam's understanding of this is corroborated by the October 1, 1998 email from Buck to Hunt and the October 27, 1998 email from Warfel to Blanch. These emails suggest that Sunbeam was aware of

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the risks relating to the potential infringement of the Design Patent. Warfel's assertion that "the [AD10] design may change slightly to avoid any patent issues" (Ex. 31) indicates in particular that Sunbeam knew that the surest means of avoiding a potential infringement claim would be to design around the scope of the Design Patent. That Sunbeam chose not to design around the Design Patent despite its awareness of the potential for a future infringement claim by Wing Shing prevents this Court from finding that Sunbeam suffered economic damages as a result of Wing Shing's unreasonable delay in bringing an action for patent infringement. Sunbeam, through its actions, demonstrated that it was willing to bear the economic risk of a later infringement claim. However, this Court does hold that Sunbeam suffered evidentiary prejudice as a result of Wing Shing's delay.

"Evidentiary, or 'defense' prejudice, may arise by reason of a defendant's inability to present a full and fair defense on the merits due to the loss of records, the death of a witness, or the unreliability of memories of long past events, thereby undermining the court's ability to judge the facts." *Aukerman*, 960 F.2d at 1033. *See also Essilor*, 1998 U.S. Dist. LEXIS 22960, at *59-60. Sunbeam established through the testimony of Steven Berreth ("Berreth"), Vice President of the Property Counsel and President of Licensing for Sunbeam, that, of the employees who worked at Mr. Coffee from 1991 through 1996, David Buck was the only one still employed by Sunbeam at the time of the trial. (Tr. 12/12/01 p. 217:3-8). Sunbeam also demonstrated that a majority of the engineering documents from 1991 and 1992, the period during which the design of the AD Coffeemaker was being developed, were lost following the Sunbeam acquisition of Signature Brands

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in 1998, along with the records of the negotiations that occurred between Mr. Coffee and Wing Shing relating to the Agreement. According to Berreth, following the acquisition of Signature Brands by Sunbeam, only 150 boxes of Mr. Coffee records were located, containing almost entirely accounting and marketing records. (12/12/01 p. 219:10-25). Furthermore, Kubis, whom Sham allegedly informed of the infringement of the Design Patent at the Chicago Houseware Show in January 1996, was unable to be located in connection with this trial. (Tr. 12/12/01 p. 243:11-17).

It is clear to this Court that, as a result of Wing Shing's unreasonable delay in bringing suit for the infringement of the Design Patent, Sunbeam has suffered significant material evidentiary prejudice. The dispersion of potential witnesses, the misplacement of relevant documents and the loss of institutional knowledge relating to Mr. Coffee and Wing Shing's early relationship has severely hindered Sunbeam's ability to effectively litigate the present case. Sunbeam should not suffer the burden of evidentiary prejudice caused by a delay rooted in Wing Shing's desire to reap the benefits of a profitable business association with Sunbeam. This Court therefore holds that Wing Shing cannot presently take what amounts to a second bite at the apple by preserving the opportunity to recover for a claim accrued during the same period that Wing Shing was enjoying the rewards of its dealings with Sunbeam. The doctrine of laches applies in this case and Wing Shing will not be entitled to damages incurred prior to the inception of the District Court Action.

*Appendix C**3. Wing Shing Failed to Provide Adequate Notice of Infringement*

Sunbeam also argues that, prior to bringing the District Court Action, Wing Shing failed to provide adequate notice of the infringement to Sunbeam, thereby precluding Wing Shing's pre-suit claims. The Court accepts this as an alternate theory to laches in preventing Wing Shing from recovering pre-suit claims. Compliance with the notice provisions set forth in 35 U.S.C. § 287(a) is necessary for recovery pursuant to 35 U.S.C. § 284 or § 289. *See Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1446 (Fed.Cir.1998) (concluding "that the marking requirement, § 287(a), applies to design patents whether remedy for infringement is sought under § 284 or § 289."). There are two methods of complying with the § 287(a) statutory requirement: (i) constructive notice achieved by marking the patented items with the patent number; or (ii) actual notice achieved by notifying the alleged infringer of the charge of infringement. 35 U.S.C. § 287(a).

Wing Shing acknowledges that at no time did it request that a marking, indicating the existence of the Design Patent, be placed on the AD Coffeemaker, its packaging, or on any written insert included therewith. (Tr. 12/11/01 p. 142:15-143:10). Therefore, Wing Shing must rely on actual notice of the infringement to obtain pre-suit recovery.

Wing Shing further acknowledges that the only written correspondence delivered to Sunbeam attesting to the fact that Wing Shing held the Design Patent; the March 9, 1995 Fax, intentionally omitted any reference to the fact that Sunbeam was infringing the Design Patent. (Tr. 12/11/01

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p. 145:22- 146:3). In order for actual notice to be deemed given for purposes of § 287(a), a patent holder must provide notice to an alleged infringer of the infringement. *See Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed.Cir.1994). Since Wing Shing deliberately refrained from informing Sunbeam of the infringement in the March 9, 1995 Fax, the Court finds that the fax does not constitute notice pursuant to § 287(a). Moreover, Wing Shing has conceded that it never claimed that the March 9, 1995 Fax provided actual notice of the infringement. (Defendant-Counterclaimant's Post-Trial Reply Memorandum at 17).

The only act of notice that Wing Shing is able to present is the alleged conversation between Sham and Kubis at the Chicago Houseware Show. However, once again, the Court is unwilling to accept an uncorroborated, self-serving conversation as the only evidence of actual notice of infringement. The Court finds that in choosing to wait for an extended period of time to bring an action for infringement so that it could maximize its own profits, Wing Shing forfeited the right to rely on the alleged conversation between Sham and Kubis. Had Wing Shing brought suit in a timely manner, Kubis might have been located. Since Wing Shing made a conscious choice not to bring suit in a timely fashion, it may not at present rely on an uncorroborated Sham/Kubis conversation as its sole source of actual notice. Having failed to provide constructive or actual notice to Sunbeam prior to the commencement of the District Court Action,³ Wing Shing is precluded from the recovery of pre-suit claims.

3. Actual notice of the infringement of the Design Patent was provided to Sunbeam upon the filing of the District Court Action on February 9, 2001. Sunbeam acknowledged receipt of such actual notice upon the filing of this Adversary Proceeding.

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B. Contractual Issues

Sunbeam argues that the Agreement grants it ownership of, or a permanent license for, the Design Patent. Paragraph 23(f) of the Agreement states that the Agreement shall be governed by the laws of the State of Ohio. Under Ohio law, "contract terms are to be given their ordinary meaning. When the terms of the contract are clear on their face, the court has no need to construe the evidence otherwise." *Ohio Historical Soc'y v. General Maint. and Eng'g Co.*, 65 Ohio App.3d 139, 146, 583 N.E.2d 340 (Ohio Ct.App.1989). "When the terms included in an existing contract are clear and unambiguous, we cannot create a new contract by finding an intent not expressed in the clear and unambiguous language of the written contract." *Hamilton Ins. Servs. v. Nationwide Ins. Cos.*, 86 Ohio St.3d 270, 273, 714 N.E.2d 898 (Ohio Sup.Ct.1999). The Agreement is clear and unambiguous on its face and there is no issue of fact to be determined regarding its interpretation. This Court finds that the Agreement does not provide for an assignment of the Design Patent to Sunbeam, nor does it grant Sunbeam a permanent license for the Design Patent.

1. Assignment of Existing Patent Rights

Sunbeam claims that the first sentence of Paragraph 16(a) of the Agreement, which reads, "[a]ny and all existing patent rights for the units or any of its component parts shall be the sole and exclusive property and/or responsibility of Mr. Coffee," (Ex. 59), effectively assigned the Design Patent to Mr. Coffee.

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First, Sunbeam claims that since Kopaskie executed the Agreement on July 13, 1992, the same date that Sham applied for the Design Patent, the patent application relating to the Design Patent was an "existing patent right" as of that date and was therefore assigned to Sunbeam. However, the Agreement clearly states that it is made as of June 22, 1992. The Sixth Circuit has held that "Kentucky law clearly allows parties to a contract to predate a contract and both parties will be bound by that agreement." *C.T. Massey v. Exxon Corp.*, 942 F.2d 340, 344 (6th Cir.1991). "New York accepts the principle that, in some circumstances, parties to a contract may bind themselves retroactively." *Debreceeni v. The Outlet Co.*, 784 F.2d 13, 18 (1st Cir.1986). "When a written contract provides that it shall be effective 'as of' an earlier date, it generally is retroactive to the earlier date." *Viacom Int'l, Inc. v. Tandem Prod., Inc.*, 368 F.Supp. 1264, 1270 (S.D.N.Y.1974). Given that a predated contract is effective retroactively, the phrase "existing patent rights" only applies to those patent rights, if any, that were in existence on June 22, 1992, the date that the Agreement was effective. Since neither the patent application for the Design Patent, which was filed on July 13, 1992, nor the Design Patent itself, which was issued by the United States Patent and Trademark Office on July 12, 1994, was extant prior to June 22, 1992, the date of the Agreement, neither the patent nor the patent application was captured by the phrase "existing patent rights."

Sunbeam argues that the phrase "existing patent rights" also includes the right to apply for a patent, thereby causing such right to be assigned to Mr. Coffee pursuant to the Agreement. This Court finds that the language found in the Agreement and in the relevant case law supports the

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conclusion that "existing patent rights" does not include the right to apply for a patent.

Wing Shing's argument that an idea or unfiled patent application is not an "existing patent right" is supported by the United States Court of Appeals for the Federal Circuit, which notes in *Gasser Chair Co., Inc. v. Infanti Chair Mnf. Corp.*, 60 F.3d 770, 777 (Fed.Cir.1995), "[u]nlike patent rights, which arise at issuance of the patent, rights in trade dress arise when the overall appearance attains recognition and association among the relevant consumer groups." (emphasis added). This proposition is further supported by *Fulmer v. United States*, 83 F.Supp. 137, 151 (N.D.Ala.1949) (citing *Gayler v. Wilder*, 51 U.S. 477, 493, 10 How. 477, 13 L.Ed. 504 (U.S.N.Y.1851)), where the court opines that "an unpatented invention or idea is but an inchoate right and 'the inventor . . . certainly has no exclusive right to it until he obtains a patent . . . and no suit can be maintained . . . for using it before the patent is issued.'" At the very least, the proposition that the assignment of all "existing patent rights" captures the assignment of a mere idea or unfiled patent application is unsupported, absent some specific indication in the Agreement that such an assignment was intended. As further discussed below, the language of the Agreement does not suggest that the parties intended to assign either the idea or the unfiled patent application for the Design Patent.

Wing Shing also argues that neither an idea nor an unfiled application involves a property right capable of being transferred by an agreement. This proposition is supported by *Owen v. Paramount Prods., Inc.*, 41 F.Supp. 557, 560 (S.D.Cal.1941), where the court reasoned that "[a]n

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instrument which does not purport to convey a present interest in an existing patent, or in one for which an application is pending, is not an assignment within the statute."

On the other hand, courts have held that "an assignment is not invalidated because the invention is assigned before the patent issues." *Kenyon v. Automatic Instrument Co.*, 160 F.2d 878, 882 (6th Cir.1947). Clearly there are circumstances in which patents or patent applications not yet in existence are assigned by one party to another. For example, employees frequently assign their rights to future patents and patent applications to employers through an invention assignment agreement. See *Toner v. Sobelman*, 86 F.Supp. 369, 378 (E.D.Pa.1949) (explaining that "[t]he employer may by contract obtain title to the patent where the employee sells in advance the fruits of his talent."). In *The Regents of the Univ. of New Mexico v. Knight*, 321 F.3d 1111, 1120 (Fed.Cir.2003), the court held that employee-defendants, inventors of certain biopharmaceutical inventions, were contractually obligated to assign certain patents to the University of New Mexico by virtue of the university's patent policy and of invention assignment agreements previously executed by such employees. *Regents* acknowledges that, while the initial ownership of a patent vests in the inventor, inventors may assign all or part of their interest in a patent through contract or patent policy. Although future patent rights were found to be assignable in *Toner* and *Regents*, any such assignment should be made explicitly in the applicable contract. In the case at hand, the Agreement provides only for the assignment of "existing patent rights." On its face the Agreement calls for the assignment of patents

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and possibly patent applications, but it does not explicitly assign rights to future patents or patent applications. Since the assignment of "existing patent rights" does not capture a mere idea or an unfiled patent application, the assignment of rights to future patents or patent applications need be specifically referenced if such an assignment were to take place.

Sunbeam references a number of cases to support its argument that the right to apply for a patent is an "existing patent right." However, each of these cases is distinguishable from the facts of this litigation. First, Sunbeam discusses *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 885 (7th Cir.1986), where the court rejected the argument that the right to apply for a patent is not a patent right as "but semantics." However, the court in *Meehan* goes on to state that "[t]he parties' anticipation and expectation of an issued patent appear throughout the contract." *Id.* at 886. In the present case, the Agreement does not contemplate the issuance of the Design Patent, and there is no indication within the four corners of the Agreement of any intention to assign a future design patent that might be applied for or issued. In fact, the Agreement's language and terms suggest that the Design Patent was not assigned to Sunbeam in Paragraph 16(a).

Paragraph 16(d) provides that Wing Shing will not ship into the United States, Canada or Mexico any item embodying the aesthetic visual design or any design similar to the AD Coffeemaker. It also provides the Wing Shing will not sell any item having the same aesthetic visual design or any design similar to the AD Coffeemaker to any other Wing Shing customer if such customer intends to market the item

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in the United States, Canada or Mexico. If the Agreement contemplated the assignment of a future design patent, these restrictions placed on Wing Shing's ability to sell an item with the same or similar aesthetic visual design would have been superfluous. The parties in *Meehan* made clear that they anticipated the issuance of a design patent, making the assignment of that anticipated patent a logical extension of the assignment rights. No such reference to an anticipated design patent was made in the Agreement, nor does the language or the terms of the Agreement imply that a contemplated design patent would be assigned to Mr. Coffee.

Sunbeam also relies on *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1267 (Fed.Cir.1986), where the defendant argued that the assignment of "all his [inventor's] rights in the puzzle invention" included "an assignment or sale of the rights in the invention and the potential patent rights." The case at hand is distinguishable from *Moleculon* in that the phrase "all of his rights" is a significantly broader assignment of rights than "existing patent rights." Whereas the former arguably captures any and all rights that an inventor might have in an invention, the latter, absent further indication in the Agreement that an idea or unfiled patent was intended to be assigned, effectively narrows the scope of the assignment.

Finally, Blackwell's testimony supports this Court's conclusion that Mr. Coffee did not understand "existing patent rights" to include the idea or unfiled patent application for the Design Patent:

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Q: If you had known in January of 1992 that Mr. Sham intended to apply for a patent on the product which is depicted in Exhibit J, a design patent, what would you have done?

A: . . . I would have to think about it a little bit first. It would have changed definitely the way that we viewed this project.

Q: How?

A: Well, for one thing, we would have made it clear, would have gotten a waiver from Mr. Sham on the rights to use that design. We never would have gone into a situation where somebody was patenting something we were going to buy what it is they had patented without having license to utilize that patent ... we would have taken steps to have covered that in here with probably adding a clause to the effect of, as Mr. Sham intends to patent this design, it is hereby known that Mr. Coffee is allowed to use this design in all of our products and variations of it.

Blackwell Dep. p. 141:21-143:3.

If Mr. Coffee had understood "existing patent rights" to include the idea or unfiled patent application for the Design Patent, there would not have been any need for a modification of the Agreement's final language as suggested by Blackwell. The fact that Blackwell acknowledges that Mr. Coffee would have required changes to the Agreement had it known that

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Sham intended to apply for the Design Patent amounts to an admission by Sunbeam that the meaning of "existing patent rights" should be read narrowly.

The Court finds that the assignment of any and all "existing patent rights" does not include the assignment of the idea or the unfiled patent application for the Design Patent. Therefore, the Design Patent was not effectively assigned to Mr. Coffee by Paragraph 16(a) of the Agreement.

2. Duty to Negotiate Patent Rights

Sunbeam argues that Paragraph 16(a) imposes an obligation on Wing Shing to negotiate patent rights with Mr. Coffee/Sunbeam for jointly developed patents. Sunbeam contends that Wing Shing is in breach of the Agreement since it did not negotiate patent rights relating to the Design Patent prior to applying for the Design Patent. However, this Court finds that Wing Shing is not in violation of the Agreement because: (i) the statute of limitations on any obligation that Wing Shing had to negotiate patent rights on the Design Patent terminated prior to the filing of this action; and (ii) as discussed in Section (IV)(C) herein, Mr. Coffee is not a co-inventor of the Design Patent, thus defeating Sunbeam's claim that the Design Patent was "jointly developed" by Mr. Coffee and Wing Shing.

The parties dispute the events that triggered the running of a six-year statute of limitations, pursuant to N.Y. C.P.L.R. § 213 (McKinney 2003), on Wing Shing's obligation to negotiate patent rights with Mr. Coffee. Paragraph 16(a) of the Agreement states, "[i]n the event that Mr. Coffee and

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Contractor jointly develop a patentable item both parties agree to negotiate patent rights prior to applying for the patent." Sunbeam argues that the earliest date on which Wing Shing breached this provision of the Agreement was March 9, 1995, less than six years before this action was filed. Sunbeam reasons that Wing Shing's transmittal of the March 9, 1995 Fax to Mr. Coffee on that date, claiming that it possessed the Design Patent, was the earliest manifestation of Wing Shing's ownership of the Design Patent, and thus the six-year statute of limitations commenced at that time. However, this Court finds that if Wing Shing did in fact have a responsibility to Mr. Coffee to negotiate the patent rights for the Design Patent, that obligation was breached by the filing of the application for the Design Patent. Since the application for the Design Patent was filed on July 13, 1992, and the Agreement was dated as of June 22, 1992, the clause was breached either upon the filing of the application for the Design Patent or upon the execution of the Agreement by Kopaskie on July 13, 1992, whichever happened later.

Sunbeam reasons that Sham's application for the patent in his own name was not in breach of the Agreement since, relying on *Frigi-Griffin, Inc. v. Leeds*, 52 A.D.2d 805, 383 N.Y.S.2d 339, 341 (N.Y.App.Div. 1 Dept. 1976), Sunbeam claims that a cause of action against a patentee does not accrue when a patent application has been filed, but rather when ownership of a patent is in dispute. However, *Frigi-Griffin* is distinguishable from the present cause of action in that here the breach of contract is not tied to the dispute of the patent's ownership, but rather to Wing Shing's alleged failure to negotiate the patent rights for the Design Patent before filing a patent application. If Wing Shing was obligated

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to negotiate the disputed patent rights, then it would have breached the Agreement when Sham filed the patent application on July 13, 1992 without first entering into negotiations. Pursuant to New York law, a "cause of action for breach of contract accrues and the statute of limitations commences when the contract is breached." *T & N PLC v. Fred S. James & Co. of New York, Inc.*, 29 F.3d 57, 59 (2nd Cir.1994). See also *Raine v. RKO General, Inc.*, 138 F.3d 90, 93 (2nd Cir.1998). Furthermore, knowledge of the breach on the part of the plaintiff is not required to start the statute of limitations running in a contract action. See *T & N PLC*, 29 F.3d at 60. See also *Royal Ins. Co. of Am. v. RU-VAL Elec. Corp.*, 918 F.Supp. 647, 656 (E.D.N.Y.1996). Since the alleged breach of contract would have occurred when Sham filed a patent application for the Design Patent without first negotiating with Mr. Coffee, the statute of limitations would have commenced upon the later of such filing or the execution of the Agreement, and would have run for more than six years prior to the filing of this action in either case.

Sunbeam asserts that Wing Shing's conduct, including Wing Shing's failure to inform Mr. Coffee that Sham was filing an application for the Design Patent, caused Mr. Coffee/Sunbeam to fail to bring a breach of contract action in a timely fashion, thus estopping Wing Shing from relying upon a statute of limitations defense. See *Eagle Comtronics, Inc. v. Pico Prods., Inc.*, 256 A.D.2d 1202, 1204, 682 N.Y.S.2d 505 (N.Y.App. Div. 4 Dept. 1998). However, by Sunbeam's own admission, Mr. Coffee knew, or should have known, by March 9, 1995 at the latest, upon receipt of the March 9, 1995 Fax in which Wing Shing described its ownership interest in the Design Patent, that Wing Shing had applied

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for and obtained the Design Patent. Despite this knowledge, Sunbeam did not bring suit for breach of contract at that time. Having failed to bring suit until now, despite having knowledge of the alleged contract breach, Sunbeam cannot claim at present that it was prevented from bringing action as a result of Wing Shing's misconduct.

Moreover, since the Court finds in Section (IV)(C) below that Sunbeam was not a joint inventor of the Design Patent, Wing Shing did not have an obligation to negotiate the rights to such Design Patent. Given that Sunbeam was not a co-inventor, the Design Patent should not be considered jointly developed by the parties, rendering Wing Shing's obligation to negotiate pursuant to Paragraph 16(a) of the Agreement irrelevant in this instance.

3. *Exclusivity of License*

Sunbeam claims that it has an "indefinite, exclusive license" for the Design Patent. Paragraph 17 of the Agreement stipulates that "Mr. Coffee shall have an exclusive license to market and sell the Products, and any additional items added to the Products in accordance with the terms of this Agreement, specified herein and derivatives in North America (USA, Canada, Mexico)." This contrasts with the language found in the "Terms" section of the Performance and Product Specification exhibit (the "Specification Exhibit") attached to the Agreement, which states, "Mr. Coffee, inc. [sic], shall have indefinite exclusive rights to sale of this appliance, and its derivatives, in the United States, Canada, and Mexico." Despite the fact that the Specification Exhibit uses the word "indefinite," it is the

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exclusivity clause found in the Agreement, not in the Specification Exhibit, that is binding on the parties.

Under Ohio law, when the terms of a contract are unambiguous, they are to be given their ordinary meaning without further interpretation by the court. *See Hamilton Ins. Servs.*, 86 Ohio St.3d at 273, 714 N.E.2d 898. *See also Ohio Historical Soc'y*, 65 Ohio App.3d 139 at 146, 583 N.E.2d 340. Paragraph 1 of the Agreement states, "[c]ontractor shall sell the Products to Mr. Coffee in accordance with the specifications provided herein and in the Performance and Product Specification attached hereto as Exhibit 1." According to this language of the Agreement, the Specification Exhibit is incorporated into the Agreement for the sole purpose of providing the specifications of the AD Coffeemakers. The summary of terms provided in the Specification Exhibit does not govern the relationship between the parties, and it does not override the terms set forth in the body of the Agreement. Although there is a disparity between Paragraph 17 of the Agreement, which grants Mr. Coffee an "exclusive license," and the terms set forth in the Specification Exhibit, which provide for "indefinite exclusive rights," the terms provided in the Agreement are the operative terms.

Paragraph 4(a) of the Agreement expressly states that "[t]he term of this Agreement shall begin on January 7, 1992 and shall extend through December 31, 1994, unless such Term is terminated prior to such date in accordance with the terms of this Agreement." The Agreement makes clear that it terminated on December 31, 1994. Even if the terms of the Specification Exhibit did govern the relationship between

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the parties, the phrase "indefinite exclusive rights" does not equate to the grant of a perpetual exclusive license. Black's Law Dictionary defines "indefinite" as "[w]ithout fixed boundaries . . . indefinite contemplates that condition will end at unpredictable time, whereas 'permanent' does not contemplate that condition will cease to exist." Black's Law Dictionary 769 (6th ed.1990). Taken in concert with Paragraph 4(a) of the Agreement, "indefinite exclusive rights" would mean December 31, 1994, *or such earlier time that the Agreement might be terminated*. Since the Agreement is terminable by Mr. Coffee upon ninety days written notice, the license granted to Mr. Coffee could be construed as lasting for an indefinite period of time with an outside termination date of December 31, 1994. However, the term "indefinite exclusive rights" fails to grant a perpetual license extending beyond the term specifically stated in the Agreement.

Once again, this reading of the Agreement is supported by the testimony of Jeffrey Blackwell. When asked in deposition, "[i]f you had known in January of 1992 that Mr. Sham intended to apply for a patent on the product which is depicted in Exhibit J, a design patent, what would you have done?," Blackwell responded:

A: . . . I would have to think about it a little bit first. It would have changed definitely the way that we viewed this project.

Q: How?

A: Well, for one thing, we would have made it clear, would have gotten a waiver from Mr. Sham

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on the rights to use that design. We never would have gone into a situation where somebody was patenting something we were going to buy what it is they had patented without having license to utilize that patent ... we would have taken steps to have covered that in here with probably adding a clause to the effect of, as Mr. Sham intends to patent this design, it is hereby known that Mr. Coffee is allowed to use this design in all of our products and variations of it.

Blackwell Dep. p. 141:23-143:3

Blackwell's deposition indicates that Mr. Coffee did not perceive the Agreement as granting Mr. Coffee a perpetual exclusive license for the AD Coffeemaker, as evidenced by his acknowledgment that Mr. Coffee would have drafted a more comprehensive license provision had it realized that Sham was filing an application for the Design Patent. This testimony supports the Court's finding that the Agreement did not grant a perpetual exclusive license to Mr. Coffee.

Sunbeam contends that the parties have continued to perform under the terms of the Agreement until the present day, thereby rendering their implied consent to the Agreement remaining in place. This Court finds that there is no evidence that the parties intended for the Agreement to remain in effect beyond December 31, 1994. Paragraph 26 of the initial draft of the Agreement provided that "[t]his Agreement shall continue from year to year so long as the parties agree to proceed with additional purchase orders or until either party terminates the Agreement." (Ex. Q). This language was

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removed from the final execution copy of the Agreement and replaced with a definitive termination date without provision for automatic renewal. Moreover, Paragraph 23(h) of the Agreement provides that "[t]his Agreement may not be changed orally, but may be amended, superceded, canceled, renewed or extended . . . only by an instrument in writing signed by each of the parties." Absent such a writing, there is no basis for the claim that the Agreement has been extended through the present. The fact that the parties continued their business relationship does not indicate that the term of the Agreement was extended, but rather that the parties conducted business outside of the authority of a written contract. Therefore, this Court holds that Sunbeam does not have an indefinite exclusive license for the AD Coffeemaker.

C. *Joint Inventorship of AD Coffeemaker*^A

Sunbeam argues that, since Mr. Coffee's employees were co-inventors of the Design Patent, Sunbeam is a co-owner of the Design Patent and is thus entitled to its unlimited use. A patented invention may be the work of two or more joint

4. Wing Shing contends that Sunbeam is prevented by the doctrine of laches from claiming that Mr. Coffee was a co-inventor of the AD Coffeemaker. The Court does find support in case law for the proposition that there is not a time limit set on a court's ability to correct the inventorship of an issued patent. *See Advanced Cardiovascular Sys., Inc. v. Scimed Life Sys., Inc.*, 988 F.2d 1157, 1162 (Fed.Cir.1993). *See also Ethicon, Inc. v. United States Surgical Corp.*, 954 F.Supp. 51, 54 (D.Conn.1997). However, the Court need not further address this issue, since it is rendered irrelevant by the Court's holding that Mr. Coffee was not a co-inventor of the AD Coffeemaker.

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inventors. See 35 U.S.C. § 116 (1994). See also *Ethicon v. United States Surgical Corp.*, 135 F.3d 1456, 1459-60 (Fed.Cir.1998). In conceiving a joint invention, each of the joint inventors need not "make the same type or amount of contribution" to the invention. See 35 U.S.C. § 116 (1994); also *Ethicon*, 135 F.3d at 1460; *Burroughs Wellcome Co. v. Novopharm, Inc.*, 40 F.3d 1223, 1227 (Fed.Cir.1994). Each joint inventor must perform only a portion of the task which produces the invention. However, "one does not qualify as a joint inventor by merely assisting the actual inventor after conception of the invention claimed." *Ethicon*, 135 F.3d at 1460. To qualify as a joint inventor, one must: (i) contribute in some significant manner to the conception or reduction to practice of the invention; (ii) make a contribution to the claimed invention that is not insignificant in quality, when that contribution is measured against the dimension of the full invention; and (iii) do more than merely explain to the real inventors well-known concepts and/or the current state of the art. See *Pannu v. Iolab Corp.*, 155 F.3d 1344, 1351 (Fed.Cir.1998). See also *Kosower v. Gutowitz*, No. 00 Civ. 9011, 2001 WL 1488440, at *7, 2001 U.S. Dist. LEXIS 19111, at *22 (S.D.N.Y. November 21, 2001). Additionally, "[t]o show co-inventorship . . . the alleged co-inventor or co-inventors must prove their contribution to the conception of the claims by clear and convincing evidence." *Ethicon*, 135 F.3d at 1461.

Sunbeam alleges that Mr. Coffee made certain specific contributions to the Design Patent. In order to determine whether Mr. Coffee's contributions rise to the level of joint inventorship, it is necessary to examine such alleged contributions separately and in concert to establish whether

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Mr. Coffee's changes make Sunbeam a co-inventor of the Design Patent.

1. State of the Art Changes

Patent law provides that "[o]ne who simply provides the inventor with well-known principles or explains the state of the art without ever having 'a firm and definite idea' of the claimed combination as a whole does not qualify as a joint inventor." *Ethicon*, 135 F.3d at 1460. An alleged joint inventor must "do more than merely explain to the real inventors well-known concepts and/or the current state of the art." *Pannu*, 155 F.3d at 1351. Certain changes requested by Mr. Coffee qualify as well-known concepts and current state of the art.

Elimination of the grooves on the brew basket and the ridges on the reservoir cover: The coffeemaker proposed by Wing Shing had grooves on its brew basket and ridges on its reservoir cover. Sunbeam requested that the grooves and ridges be removed from the AD Coffeemaker. When queried in her deposition as to how many coffeemakers in the market in 1991 had a smooth reservoir cover, Kim Pastrick ("Pastrick"), a former Mr. Coffee employee, answered:

A: Most of them.

Q: And can you recall how many coffeemakers were on the market in the fall of 1991 that had a smooth brew basket?

A: Most of them.

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Q: And when you say most of them, can you give me any brand names that you recall?

A: Proctor Silex, Krupps, Braun, West Bend, Salton. That's what I remember right now.

Pastrick Dep. p. 51:16-52:2.

Given the number of coffeemakers on the market that had smooth reservoir covers and brew baskets at the time the AD Coffeemaker was designed, Mr. Coffee's request to remove the ridges from the reservoir and the brew basket amounts to a well-known concept in the design of coffeemakers. Therefore, Mr. Coffee's suggestion to remove these grooves cannot be considered a conception rising to the level of inventorship, nor does this contribution support Mr. Coffee's claim of co-inventorship.

2. *Functional Changes*

Case law has established that, although a design patent may embody functional features, *See Tone Brothers, Inc. v. Sysco Corp.*, 28 F.3d 1192, 1199 (Fed.Cir.1994), a design patent only protects the novel, ornamental features of the patented design. *See OddzOn Prods., Inc. v. Just Toys, Inc.*, 122 F.3d 1396, 1405 (Fed.Cir.1997). *See also Lee v. Dayton-Hudson Corp.*, 838 F.2d 1186, 1188 (Fed.Cir.1988). "Where a design contains both functional and non-functional elements, the scope of the claim must be construed in order to identify the non-functional aspects of the design as shown in the patent." *OddzOn*, 122 F.3d at 1405. In *Lee*, the court articulated the policy considerations behind culling the

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functional elements from the scope of a design patent: “[t]o hold that general configuration made necessary by function must give to a patented design such breadth as to include everything of similar configuration, would be to subvert the purpose of the law, which is to promote the decorative arts.” *Lee*, 838 F.2d at 1188 (quoting *Accord Applied Arts Corp. v. Grand Rapids Metalcraft Corp.*, 67 F.2d 428, 430 (6th Cir.1933)).

The Supreme Court has defined a product feature as functional if “it is essential to the use or purpose of the article or if it affects the cost or quality of the article.” *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 32, 121 S.Ct. 1255, 149 L.Ed.2d 164 (2001). This Court is of the opinion that the remainder of the changes suggested by Mr. Coffee to the AD Coffeemaker are functional in nature, and are therefore beyond the scope of the Design Patent.

Moving the power switch to the column: Mr. Coffee proposed that the power switch be moved from the base of the AD Coffeemaker to its side. This change prevented water from leaking into the switch and causing potential electrical and other safety hazards. When asked in her deposition why she suggested removing the power switch from the base and putting it on the side, Pastrick acknowledged that “[t]he main reason is that it’s a safety hazard. It’s difficult with the water—water could get into the switch. It could cause more problems.” (Pastrick Dep. p. 40:20-23). Pastrick’s testimony indicates that this change was primarily functional and rooted in safety concerns.

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Opening the brew basket from left to right: Mr. Coffee requested that the brew basket open from left to right rather than right to left. This change was made because the majority of consumers are right-handed. (Tr. 12/11/01 p. 31:11-18). Jeffrey Blackwell testified that this change was functional in nature. (Tr. 12/12/01 p. 137:11-18).

Moving the water-level gauge from the right to left side: Mr. Coffee suggested moving the water-level gauge from the right to the left side of the brew basket in conjunction with changing the brew basket so that it opened from left to right. This was also a functional change determined by the placement of the brew basket's hinge. (Tr. 12/12/01 p. 139:24-140:6).

Inserting a bottom metal plate: Mr. Coffee suggested inserting a steel plate in the bottom of the AD Coffeemaker. Mr. Coffee also provided Wing Shing with a sample steel plate from Mr. Coffee's IDS40 coffeemaker as a proposed model. The purpose of this metal plate was to protect the surface underneath the AD Coffeemaker in the event of a thermostat failure. (Tr. 12/12/01 p. 103:8-16). This was primarily a safety-related, not an ornamental, change. (Tr. 12/12/01 p. 103:10-12; Tr. 12/11/01 p. 32:7-14). The plate was designed in the shape of a horseshoe as opposed to covering the entire base of the AD Coffeemaker because the latter approach required the use of more metal and was therefore costlier to produce. (Tr. 12/11/01 p. 33:3-4). The use and shape of this metal plate were dictated by safety and price-related factors as opposed to ornamental considerations.

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Adding a shroud to the power switch: Mr. Coffee suggested adding a shroud to the power switch in order to prevent water from leaking into the power switch. (Tr. 12/11/01 p. 34:16-18; Tr. 12/12/01 p. 137:24-138:3). Blackwell admitted in his testimony that this was a functional change. (Tr. 12/12/01 p. 138:4-6).

Since the above changes are functional and not ornamental in nature, the Court holds that they do not fall within the scope of the Design Patent and do not individually support Sunbeam's claim of co-inventorship.

3. Contributions to Overall Appearance of the Design Patent

Sunbeam argues that in determining whether Mr. Coffee was a co-inventor of the Design Patent, the Court should look to Mr. Coffee's contribution to the overall appearance of the design as opposed to the character of each individual contribution. Sunbeam relies on the Federal Circuit's assertion, found in *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1123 (Fed.Cir.1993), that in determining whether a design is functional or ornamental in a design patent infringement dispute, "the ultimate question is not the functional or decorative aspect of each separate feature, but the overall appearance of the article." However, *L.A. Gear* is distinguishable from the present case in that the present case deals with the requisite contribution for an individual to be considered a co-inventor of a design patent, whereas *L.A. Gear* addresses the standard to be applied when determining whether a patent has been infringed.

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When determining whether an individual is a co-inventor of a design patent, the court must look towards the contributions that individual made to the novel, ornamental features of the design. In fact, *L.A. Gear* goes on to state, "[t]he elements of the design may indeed serve a utilitarian purpose, but it is the ornamental aspect that is the basis of the design patent." *Id.* at 1123. Since Mr. Coffee's contributions were all either well-known concepts or functional changes, they do not represent a contribution to the novel, ornamental features of the Design Patent. However, even if the Court was to give weight to the overall appearance of the Design Patent, including the well-known concepts and functional aspects proposed by Mr. Coffee, the Court finds that Mr. Coffee's contribution to the Design Patent was not significant enough in quality when measured against the dimension of the full invention so as to achieve co-inventor status. Therefore, even by Sunbeam's own standard, Mr. Coffee would not be considered a joint inventor of the Design Patent.

Sunbeam also relies on *Elmer v. ICC Fabricating, Inc.*, 67 F.3d 1571, 1577 (Fed.Cir.1995), in asserting that functional features are within the scope of a design patent: "If, as [plaintiff] now contends, the vertical ribs and upper protrusion were functional, not ornamental features, [plaintiff] could have omitted these features from its patent application drawings. [Plaintiff] did not do so, however, and thus effectively limited the scope of its patent claims by including those features in it." The Court finds that Sunbeam has incorrectly applied this case in the current proceedings. Although *Elmer* holds that certain features that the *Elmer* plaintiff contends are functional are within the scope of a

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particular design patent, the court did not hold that the contribution of any feature appearing in a design patent makes a contributor a joint inventor. A design patent might be limited in scope by the features included therein, but this does not indicate that every feature will weigh in when determining inventorship. In fact, the court in *Elmer* specifically stated that, "[a] design patent protects the nonfunctional aspects of an ornamental design as shown in the patent," *Id.* at 1577, which supports this Court's holding that the contribution of strictly functional features as discussed above does not lead to joint inventorship of the Design Patent.

4. Summary

This Court holds that Sunbeam is not a co-inventor of the Design Patent. Mr. Coffee's contributions to the Design Patent were all either well-known concepts in the design of coffeemakers or strictly functional, and in making such contributions Mr. Coffee did not achieve co-inventor status. Furthermore, even if the Court was to look towards Mr. Coffee's contribution to the overall appearance of the Design Patent, Mr. Coffee's contribution to the ornamental characteristics of the Design Patent was not significant in quality when measured against the dimension of the full invention.

D. Damages

The success of Sunbeam's laches defense and Wing Shing's failure to provide adequate notice of infringement, as discussed in Section (IV)(A) herein, results in Wing Shing's being entitled solely to post-suit damages. Damages

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in patent infringement cases are governed by 35 U.S.C. § 284. An additional remedy exists for design patents pursuant to 35 U.S.C. § 289. Section 284 provides for plaintiff's recovery of damages, whereas § 289 provides for plaintiff's recovery of the infringer's profits. Wing Shing has requested relief in the form of the greater of: (i) Sunbeam's total profits on its sales of the AD Coffeemakers pursuant to § 289; or (ii) Wing Shing's damages resulting from Sunbeam's sale of infringing AD Coffeemakers, trebled pursuant to § 284. Wing Shing is not entitled to recover under both theories:

Certainly if defendant is required to pay a royalty for the right to make, use, and sell, he is not then to be deprived of his profits earned from such making, using, and selling. Conversely, if the infringer is to be deprived of its profits for unlawfully making, using, and selling, it is not to be charged a royalty for such making, using and selling, which has availed it nothing. The concepts of 'royalty' and 'infringer's profits' are contradictory.

Sel-O-Rak Corp. v. Henry Hanger & Display Fixture Corp. of Am., 159 F.Supp. 769, 777 (S.D.Fla.1958).

1. Analysis Pursuant to § 284

35 U.S.C. § 284 provides that, "[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the

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infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284. Wing Shing claims that "but for" the infringing sales that Sunbeam made to Simatelex, Sunbeam would have purchased all of its model AD Non-Timer Units from Wing Shing. Therefore, Wing Shing asserts that the profits made by Simatelex equal the "lost profits" of Wing Shing. In order to support this "but for" scenario, Wing Shing must satisfy the four-part test enumerated in *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir.1978) as follows:

- 1) Demand for the patented product;
- 2) Absence of acceptable non-infringing substitutes;
- 3) Wing Shing's manufacturing and marketing ability to exploit the demand; and
- 4) The amount of profit Wing Shing would have made.

See also Rocket Jewelry Box, Inc. v. Quality Int'l Packaging, Ltd., 250 F.Supp.2d at 338 (S.D.N.Y.2003).

This Court finds that Wing Shing has failed to satisfy the second prong of this test by establishing an absence of acceptable non-infringing substitutes. "An accurate reconstruction of the hypothetical 'but for' market takes into account any alternatives available to the infringer." *Grain Processing Corp. v. American Maize-Prods. Co.*, 185 F.3d 1341, 1351 (Fed.Cir.1999). If Sunbeam had been able to

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produce a viable non-infringing substitute for the AD Coffeemaker, Wing Shing would not be able to demonstrate that the sales that infringed the Design Patent were sales that Wing Shing would otherwise have made. Thus, Wing Shing's claim of lost profits would be defeated. The existence of a non-infringing substitute is a question of fact to be decided by the court. *See Honeywell Int'l Inc. v. Hamilton Sundstrand Corp.*, 166 F.Supp.2d 1008, 1029 (D.Del.2001). An infringer's possession of the necessary equipment, know-how and experience required to produce a non-infringing substitute are factors in determining whether such a substitute was available. *See Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1123 (Fed.Cir.2003).

Design patents have almost no scope. *See In re Mann*, 861 F.2d 1581, 1582 (Fed.Cir.1988). Thus, Mr. Coffee or Sunbeam could easily have made minor modifications to the ornamental design of the Design Patent and created a non-infringing alternative. Phillip Beutel ("Beutel") of National Economic Research Associates testified that Sunbeam could have chosen this redesign approach as a readily available alternative to continuing with the production of an infringing AD Coffeemaker. (Tr. 1/31/02 p. 135: 15-22). A modest redesign would have taken two months, whereas a more substantial redesign would have taken eight months. (Tr. 1/31/02 p. 176:19-22). Sunbeam did have the necessary equipment, know-how and experience required to make the minor modifications to the AD Coffeemaker necessary to construct a non-infringing design patent. The Court is of the opinion that such a redesign would have constituted a non-infringing product and would have provided an available alternative to the use of the Design Patent. Given the fact

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that design patents are narrow in scope, the redesigned product could have been ornamentally similar to the AD Coffeemaker without infringing the Design Patent.

Berreth also testified that Sunbeam had made a decision to curtail its business dealings with Wing Shing in stating: "for a number of business reasons we had decided to move out of [Wing Shing] as a supplier. We had had numerous quality problems and also legal problems with [Wing Shing]; so, we had made a conscious decision to look for other suppliers of basically all of the products [Wing Shing] was then manufacturing for us." (Tr. 12/12/01 p. 194:2-8).

Sunbeam's desire to limit Wing Shing's role as a supplier is further evidenced by the fact that the number of AD Coffeemakers that Sunbeam purchased from Wing Shing declined by approximately 50% between 1999 and 2000. (Tr. 12/11/01 p. 171:12-16).

Sunbeam also makes clear the fact that it would not have sold a product, when another entity held the patent to such product, without having a license to utilize that patent. (Blackwell Dep. p. 142:13-18) (stating "[w]e never would have gone into a situation where somebody was patenting something we were going to buy what it is they had patented without having a license to utilize that patent. That would be rather stupid as business people."). Sunbeam valued the ability to dual source its products, and it has established that it would not have accepted a scenario where it did not at least have the option of doing so. (Tr. 1/31/02 p. 161:2-5).

The ease with which Sunbeam could have designed around the Design Patent, coupled with the friction that

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existed between Sunbeam and Wing Shing and Sunbeam's desire to be able to dual source its products, renders it not only possible, but also likely, that Sunbeam would have chosen to design around the Design Patent rather than direct all of its AD Coffeemaker sourcing to Wing Shing. This Court finds that the redesign of the AD Coffeemaker was a viable and acceptable non-infringing substitute to the continued production of the AD Coffeemaker, thereby precluding Wing Shing's recovery of the total profits made by Simatelex as "lost profits" during the infringing period. Even apart from the *Panduit* test, the Court is not convinced that, but for the infringement of the Design Patent, Sunbeam would have directed more sales to Wing Shing. Therefore, Wing Shing fails to demonstrate lost profits under § 284.

The Court must then determine the "reasonable royalty" that Sunbeam would have paid to Wing Shing for use of the Design Patent. A "reasonable royalty" contemplates a hypothetical negotiation between the patentee and the infringer at a time before the infringement began. This analysis necessarily involves some approximation of the market as it would have hypothetically developed absent infringement, and also requires an economic and factual basis to build upon. *See Riles v. Shell Exploration and Prod. Co.*, 298 F.3d 1302, 1311 (Fed.Cir.2002).

The Court finds Beutel's testimony helpful in constructing this hypothetical negotiation. Hypothetically, in the event that Sunbeam had approached Wing Shing to license the AD Coffeemaker prior to infringement, Wing Shing would have had two options to consider. The first would have been to deny the license. Under this scenario Sunbeam would

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likely have designed around the AD Coffeemaker and, given that there were other comparable manufacturers with whom Sunbeam could have conducted business, (Tr. 1/31/02 p. 153:5-19), shifted its business away from Wing Shing. By denying the license, Wing Shing stood to lose more than it likely would have gained. Thus, as a rational economic agent, Wing Shing probably would have chosen to grant the license for a reasonable royalty, thereby deriving continued economic benefit from the Design Patent and from whatever ongoing business would be provided by Sunbeam as a major customer. (Tr. 1/31/02 p. 152:16:24).

In this hypothetical scenario, Sunbeam, as a rational economic agent, would be willing to pay for the license up to that amount that it would cost for Sunbeam to design around the Design Patent, plus a premium for avoiding: (i) disruptions to business that might be caused when making minor changes to the design of the AD Coffeemaker; (ii) the incurrence of risk in introducing a modified product; and (iii) having to alert store buyers and manufacturers of the modified product. Beutel testified that, to change the molding of the AD Coffeemaker to incorporate the ornamental changes necessary to design around the Design Patent, it would cost Sunbeam "no more than \$32,000. It could be less, but certainly no more than \$32,000." (Tr. 1/31/02 p. 151:9-10). Beutel also testified that a complete reworking of the design of the AD Coffeemaker, such that all of the exterior components of the coffeemaker were affected, would cost no more than \$173,000. (Tr. 1/31/02 p. 151:17-19). Since, as previously mentioned, design patents are narrow in scope, the Court finds that Sunbeam need only have made minor changes to the Design Patent in order to

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avoid future infringement. Therefore, Sunbeam could have relied on the less expensive, \$32,000, design alternative in developing a non-infringing product. With Sunbeam having the option of relying upon a \$32,000 redesign effort to avoid infringement, it is unlikely that it would have been willing to pay substantially more than that amount to license the Design Patent. The Court is unable to ascertain the exact premium that Sunbeam would have paid to avoid having to redesign the AD Coffeemaker, but in no event is the Court able to envision this premium increasing the total payment for the license beyond the \$173,000 that Sunbeam would have paid to completely overhaul the Design Patent and develop a new product line. Therefore, for purposes of determining a reasonable royalty pursuant to § 284, the Court holds that such reasonable royalty would amount to a minimum of \$32,000 and a maximum of \$173,000. Under no circumstances does this Court envision Sunbeam paying a percentage of sales for a license that it could easily have designed around.

The rate of interest to be awarded under § 284 is left to the discretion of the court. *See BIC Corp. v. First Prominence Co.*, No. 00 Civ. 7155, 2001 WL 1597983, at *3, 2001 U.S. Dist. LEXIS 20734, at *9 (S.D.N.Y. Dec. 10, 2001). "A commonly accepted prejudgment interest rate in patent damages cases is the prime rate." *Id.* at *3. *See also Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 939 F.2d 1540, 1545 (Fed.Cir.1991) ("A trial court is afforded wide latitude in the selection of interest rates, and may award interest at or above the prime rate."). This Court finds that the prime rate is a reasonable rate of prejudgment interest in this case. The prejudgment interest at the prime rate on \$32,000,

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compounded daily from February 9, 2001 to the date of this Memorandum Decision, is \$4,112.34. The prejudgment interest at the prime rate on \$173,000, compounded daily from February 9, 2001 to the date of this Memorandum Decision, is \$22,232.32.

a. Discussion on Treble Damages

35 U.S.C. § 284 also provides that the Court may increase damages up to three times the amount found or assessed. The decision to award damages and the amount of such damages is a matter for the discretion of the court. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed.Cir.1992) ("An award of enhanced damages for infringement, as well as the extent of the enhancement, is committed to the discretion of the trial court."). In determining whether or not to award damages, this Court must look towards Sunbeam's conduct in light of the facts and circumstances of the case. "The paramount determination in deciding to grant enhancement and the amount thereof is the egregiousness of the defendant's conduct based on all the facts and circumstances." *Id.* at 826.

Based on the evidence presented, this Court cannot justify the award of treble damages to Wing Shing. Sham testified that Wing Shing was willing to accept Sunbeam's infringement of the Design Patent in order to avoid a confrontation with Sunbeam, a major Wing Shing customer. (Tr. 12/11/01 p. 146:14-147:14). Sham also testified that he specifically instructed a Wing Shing employee in March 1995 not to inform Sunbeam of the infringement or to request that Sunbeam cease and desist buying AD Coffeemakers from Simatelex because he did not want to "fight" with Sunbeam.

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(Tr. 12/11/01 p. 145:17- 146:8). Having tolerated the infringement of the Design Patent for a lengthy period of time in order to maintain its business relationship with Sunbeam, it would be unreasonable for Wing Shing to expect to be awarded enhanced damages of any kind. Wing Shing enjoyed the fruits of its dealings with Sunbeam for almost a decade, and only brought suit when its sales to Sunbeam declined and after Sunbeam filed for chapter 11 protection. Given this set of facts and circumstances, this Court denies Wing Shing's request for treble damages.

2. *Analysis Pursuant to § 289*

35 U.S.C. § 289 provides for a further remedy for design patents in an amount equal to the total profit of the infringer. Under § 289, an infringer "shall be liable to the [patent holder] to the extent of his total profit, but not less than \$250." 35 U.S.C. § 289. Once a patent owner establishes the amount of infringing sales, the burden shifts to the infringer to demonstrate the nature and amount of the costs that should be considered in calculating its "total profits," as well as their relationship to the infringing product. *See Bergstrom v. Sears, Roebuck and Co.*, 496 F.Supp. 476, 497 (D.Minn.3d.1980). For purposes of determining the amount of Sunbeam's infringing sales, Sunbeam has provided sales figures which Wing Shing has used in its proffered calculation of Sunbeam's total profits. However, the sales figures as provided extend only through the first quarter of 2001. In order to determine Sunbeam's actual profit, it is necessary for Sunbeam to provide Wing Shing and the Court with the appropriate sales figures for the infringing products from February 9, 2001, the date that the District Court Action

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commenced and actual notice was given, through the date of the cessation of the infringement.

Wing Shing has argued that the only costs that should be subtracted from the gross sales figures in order to arrive at Sunbeam's profits derived from the infringing products are the product cost of sales, freight and warranty return provisions. (Tr. 1/31/02 p. 120:23-121:4). In Sunbeam's computation of its profits derived from the infringing profits, Sunbeam asserts that its fixed costs incurred in connection with the production of the AD Coffeemakers should be deducted from the gross sales figures as well.

The inclusion or exclusion of fixed costs is a matter for the Court to determine in its discretion. "For design patent cases, authority on the calculation of fixed expenses is scant, thus requiring the Court to use discretion." *Rocket*, 250 F.Supp.2d at 340. "Neither case law nor logic provides a clear rule for the proper treatment of fixed expenses in computing an award of profits." *Schnadig Corp. v. Gaines Manufacturing Co., Inc.*, 620 F.2d 1166, 1172 (6th Cir.1980). "No fast and hard rules should or can be stated to guide application of this general rule to the infinite variety of fact situations developed in different cases." *Id.* at 1173. Courts have treated the decision as to whether fixed expenses should be deducted from total costs as a question of fact. "These contentions [deductions allowed in the computation of net profits] involve questions of fact." *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 409, 60 S.Ct. 681, 84 L.Ed. 825 (1940). "Although the proper treatment of fixed expenses can be viewed as a question of law, most courts have perceived the real questions to be the relationship between

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the particular fixed costs and the infringing production in each case, and this has been treated as a question of fact." *Schnadig*, 620 F.2d at 1174.

Sunbeam has produced a pro-forma P & L statement (the "Simatelex Pro-Forma"), marked as SW 1225 of Exhibit AP, (Ex. AP), demonstrating the sales and expenses associated with the infringing Simatelex-produced AD Coffeemakers. This Court must determine which categories of fixed expense are deductible, and then allocate a portion of such expenses to the infringing AD Coffeemakers. "*Sheldon* requires a court to (1) determine what categories of expenses are deductible based upon their nexus to the production of the infringing product, and (2) fairly allocate a portion of that overhead to the infringing item." *Rocket*, 250 F.Supp.2d at 341. *See also Hamil Am., Inc. v. GFI, Inc.*, 193 F.3d 92, 105-106 (2d Cir.1999). Courts have held that those fixed costs that assist in the production of infringing products should be attributable to those products. "'Overhead' which does not assist in the production of the infringement should not be credited to the infringer; that which does, should be; it is a question of fact in all cases." *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 54 (2d Cir.1939). *See also Wilkie v. Santly Bros., Inc.*, 139 F.2d 264, 265 (2d Cir.1943). "The fixed expenses are as necessary to the infringing production as are the variable expenses, and should be similarly treated." *Schnadig*, 620 F.2d at 1172. This Court finds that the costs set forth on the Simatelex Pro-Forma are properly attributable to the infringing AD Coffeemakers, with the exception of "Research & Development," "Goodwill & Trademark Amortization" and "Administrative," since the amount of these expenses directly attributable to the AD Coffeemakers is ambiguous

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and Sunbeam has not clarified the issue. The Court will also exclude "Special Charges/Other SG & A," "Other COS Special Charges," "E & O COS Adjustment" and "Reserve for E & O," since the nature of these items and their relation to the AD Coffeemakers is unclear to the Court and Sunbeam has not adequately explained them. The Court holds that the remainder of the line items are directly related to the AD Coffeemakers, and that the AD Coffeemakers could not have been brought to market without them.⁵

Sunbeam bears the burden of presenting a formula for allocating fixed overhead that is fair and acceptable. "The infringer has the burden of 'offering a fair and acceptable formula for allocating a given portion of overhead to the particular infringing items in issue.'" *Hamil*, 193 F.3d at 105 (quoting 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.03[B], at 14-39 (1996)). It is then for the Court to determine whether the proffered overhead allocation formula is reasonable. "The reasonableness of the proffered overhead allocation formula is a question of fact in all cases." *Hamil*, 193 F.3d at 105.

5. Wing Shing has argued that a court may award prejudgment interest on a claim pursuant to 35 U.S.C. § 289, despite the fact that prejudgment interest is not provided for in the statute. (Defendant Counterclaimant's Proposed Findings of Fact, Conclusions of Law, Permanent Injunction and Judgment at 97-98). Although the case law cited by Wing Shing does not articulate a clear standard for awarding prejudgment interest under § 289, the Court has determined that the award of such prejudgment interest would be unreasonable in this instance for the same reasons that the Court outlined in declining treble damages under 35 U.S.C. § 284 in Section (IV)(D)(1)(a) above. As stated therein, the Court is of the opinion that Wing Shing's conduct does not warrant enhanced damages.

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Sunbeam has proposed that the method that should be employed in allocating fixed costs associated with the production of the AD Coffeemakers is to allocate costs as a percentage of sales. The Court finds that this is a fair and acceptable method of attributing fixed costs. The Court finds persuasive Sunbeam's argument that, since in the ordinary course of its business Sunbeam does not specifically keep track of accounting line items with respect to the AD Coffeemakers or with respect to particular suppliers, it would be an extremely difficult, and ultimately near impossible, task for Sunbeam to assign such line items to particular models or suppliers at present. (Tr. 12/12/01 p. 162:11-163:3). Given the difficulty that this process would entail, and given that Sunbeam ordinarily accounts for costs as a percent of sales (Tr. 12/12/01 p. 164:10-13), the Court holds that the assignment of costs as a percentage of sales is a reasonable method of assigning overhead to the infringing products.

3. *Attorney's Fees Pursuant to 35 U.S.C. § 285*

Pursuant to 35 U.S.C. § 285, "[t]he Court in exceptional cases may award reasonable attorney fees to the prevailing party." Taking Wing Shing's conduct into account, the Court does not find that the case at hand is an exceptional case. "Bad faith litigation, willful infringement, or inequitable conduct are among the circumstances which may make a case exceptional." *Mahurkar v. C.R. Bard*, 79 F.3d 1572, 1579 (Fed.Cir.1996). The Court has determined that the award of attorneys fees under § 285 would be inappropriate and wholly unreasonable in this instance, for the same reasons that the Court outlined in declining treble damages under 35 U.S.C. § 284 in Section (IV)(D)(1)(a) above.

*Appendix C**4. Summary*

In order to determine Sunbeam's profits for the period of February 9, 2001, the date that the District Court Action was filed, through the date of entry of this judgment, Sunbeam is instructed to provide a pro-forma income statement, consistent with the Court's findings in this Section (IV)(D), setting forth its operating profits earned from the sale of the infringing AD Coffeemakers produced by Simatelex during such period. In the event that this amount is less than \$195,232.32, the maximum royalty rate, including prejudgment interest,⁶ that the Court has determined Wing Shing would be entitled to pursuant to 35 U.S.C. § 284, then the Court will have to solicit further facts from the parties to determine the actual royalty rate that Wing Shing should be entitled to. After the production of these results, Wing Shing shall ultimately be entitled to the greater of its lost profits pursuant to 35 U.S.C. § 284 or Sunbeam's total profits under 35 U.S.C. § 289, in accordance with the Court's findings in this Memorandum Decision. Wing Shing shall not be entitled to treble damages under 35 U.S.C. § 284, or to its attorney's fees.

V. CONCLUSION

For the reasons set forth above, Sunbeam, its officers, agents, servants, employees and attorneys, and all those persons in active concert or participation with them who

6. As discussed in Footnote 5 above, the Court has determined that Wing Shing shall not be entitled to prejudgment interest in the event that Wing Shing recovers Sunbeam's total post-suit profits pursuant to 35 U.S.C. § 289.

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receive actual notice of this order by personal service or otherwise be, and hereby are, permanently enjoined pursuant to 35 U.S.C. § 283 from: (i) infringing the Design Patent; and (ii) making, using, offering to sell, selling within the United States, or importing into the United States, any product making use of the Design Patent during the term of the Design Patent.

In addition, the claim of Wing Shing shall be allowed, without costs, in an amount to be determined pending Sunbeam's production of its operating profits earned from the post-suit sale of the infringing AD Coffeemakers produced by Simatelex, in accordance with this decision. Sunbeam is to submit a suitable pro-forma income statement within thirty days.

The claims of Sunbeam are dismissed with prejudice and without costs.

Wing Shing is hereby directed to submit to the Court an order on five days' notice consistent with this decision.

Dated: New York, New York
June 3, 2003

s/ Arthur J. Gonzalez
UNITED STATES BANKRUPTCY JUDGE